United Nations Development Programme
Bureau for Development Policy

Are we really reducing global poverty?

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New York
July 2002

Abstract

Some of the global norms, facts and findings on poverty have led to two incorrect conclusions: that good progress is being made towards the target of halving global poverty by 2015, and that aggregate economic growth is the best way for reducing it further. The paper questions whether $1 per day is a valid poverty norm, whether poverty trends for China are an enigma; and whether statistical validity can be mistaken for truth. It draws the attention to the risk of 'misplaced concreteness' in economic analyses. It emphasises that equity matters for poverty reduction, based on the argument that if growth is good for the poor but if high inequality inhibits growth—as most analysts now agree—then equity must be good for the poor. Indeed, equity does matter for poverty reduction. It would be incorrect to assume that more growth will automatically translate into less poverty. Equity concerns are not about charity, but about laying the foundation for a strong economy and a just society. The fact that the poor do not gain from economic stagnation and recession does not prove—regrettably—that the opposite will be true. The fact that macro-economic instability hurts the poor does not necessarily mean that macro-economic stability will benefit the poor. Much will depend on how stability is achieved. More nuanced positions and conclusions are warranted, given the many complexities that govern the relationship between growth and poverty.

The paper also argues that if robust economic growth in places as far apart as South Asia and Latin America does not significantly reduce income-poverty, then there is a strong case for social policy to ensure that growth leads to rapid poverty reduction. Social safety nets allow for a rapid response to crises but they are not sufficient as social shock absorber. They claim to be efficient, which does not necessarily imply they are effective. There is no doubt that public spending on social services includes wastage; but those who argue that existing budgets have to be used more efficiently before investing more public money miss the important point that insufficiencies often create inefficiencies. The dichotomy between more money versus more efficiency is a false one. Most policy-makers do not face a choice between either improving efficiency or increasing budget allocations; both have to be addressed simultaneously. Indeed, inefficiencies and insufficiencies are not independent, but very much interdependent. A social shock absorber should not be dismissed on the basis of non-affordability. User fees, narrow targeting and safety nets cannot be the mainstay for ensuring universal coverage of basic social services. Ex-post safety nets are usually under-funded, slow to take-off and seldom reach the poorest. They are likely to yield savings that are 'penny-wise but pound-foolish'. High-achieving countries such as Costa Rica, the state of Kerala (India), the Republic of Korea, Mauritius, Sri Lanka and others all applied broad targeting; none of them relied on shortcuts.

"The association of poverty with progress is the great enigma of our times"
Henry George [1882, p.6]

1. Introduction[1]

Poverty reduction has become a top priority for international development; new norms, facts and findings on global poverty are gradually becoming part of the established economic wisdom. But contrary to common belief, poverty is not easy to define and quantify. Some of that wisdom needs to be challenged, based on the premise that knowledge and learning are best served by questioning established tenets rather than by readily believing them; by doubting theories rather than being blindsided by them. Indeed, arguments about global poverty are often presented in a one-sided and over-simplified way. J.K. Galbraith [1958, p.10] argued, "the articulation of the conventional wisdom [...] is an act of affirmation like reading from the Scriptures or going to church". Conventional wisdom is frequently mistaken.

Five questions are raised in this chapter:

- Is $1-per-day a valid poverty gauge?
- Are statistics for China unduly biasing global poverty trends?
- Is much of the global poverty debate about 'misplaced concreteness'?
- Is equity good for the poor?
- Is a social shock absorber feasible and affordable?

Each of these questions is addressed in a separate section below. A final section points to two incorrect conclusions the international community is drawing regarding global poverty trends and anti-poverty strategies. Before addressing the first question, a brief review of global poverty trends since 1990 is in order.

2. Global poverty trends

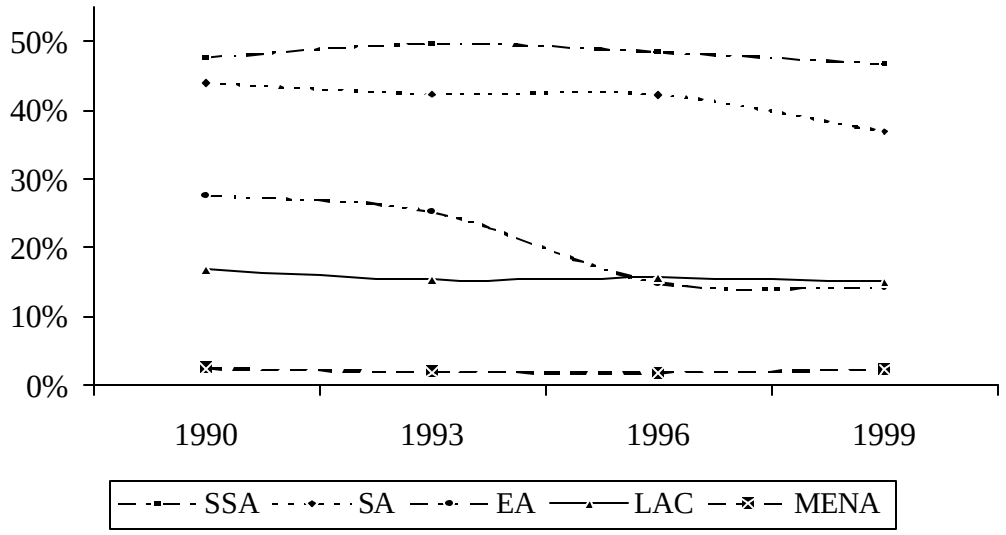
The average proportion of people in developing countries living on less than a $1 per day fell from 32 to 25 per cent between 1990 and 1999, according to the latest estimates [World Bank, 2002]. The simple extrapolation of this trend to the year 2015 results in a headcount index of about 16 per cent—indicating that the world is on track for reaching the global goal of halving poverty between 1990 and 2015. Unfortunately, the reality is more complex, and progress less satisfactory.

The number of people below the international poverty line declined by a mere 1 per cent per year between 1990-99; decreasing from 1.3 billion people to 1.1 billion people respectively. Furthermore, poverty trends for most regions showed little or no progress

[1] Published in "World Poverty: new policies to defeat an old enemy", edited by Peter Townsend and David Gordon, The Policy Press (September 2002 – ISBN 1 86134 395 7). The views expressed in this chapter do not necessarily reflect those of the United Nations Development Programme. I am grateful to Jacques Loup, Selim Jahan and Jafar Javan of UNDP; Gisele Kamanou of the UN Statistical Division; and Enrique Delamonica of UNICEF for helpful comments and suggestions. The usual disclaimers apply.

(diagram 1). The incidence of income-poverty remained largely unchanged in sub-Saharan Africa (SSA), Latin America and the Caribbean (LAC) and in the Middle East and North Africa (MENA). Actually, the number of income-poor in these three regions combined increased by about 7 million people each year between 1990 and 1999. Regional trends show that the decline in global poverty was driven by East Asia (EA) between 1993-96 and by South Asia (SA) in 1996-99. China and India in particular are responsible for the apparent decline in global poverty.

Diagram 1: Most regions failed to reduce poverty in the 1990s
(percentage of people below $1/day)



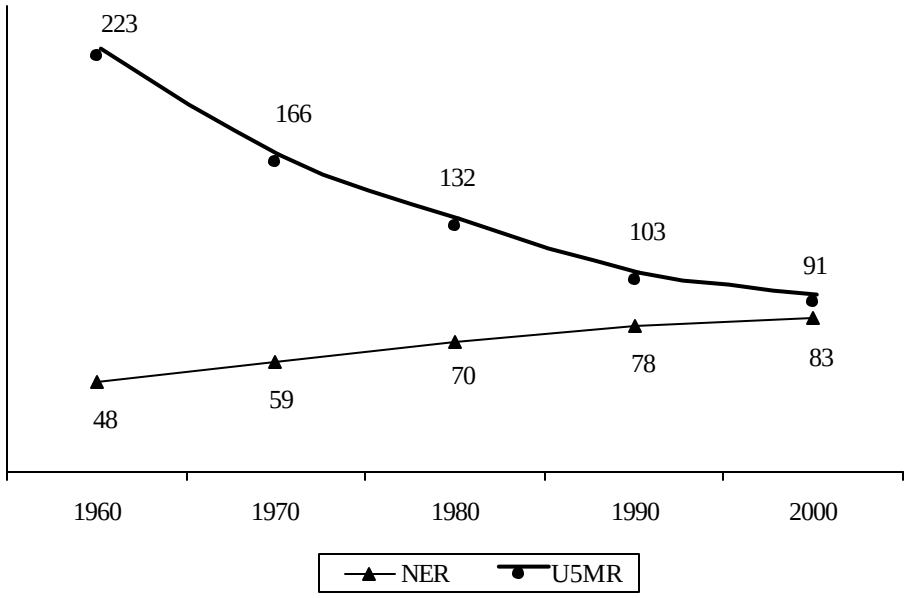
Source: World Bank [2002]

When excluding East Asia, the average proportion of income-poor in developing countries declined less dramatically—to 33 per cent in 1998, down from 35 per cent in 1990. At this pace, poverty will not be halved by 2015; it will only be one-quarter below its level in 1990.

Progress towards other goals has been painfully slow too. In 1990, the global target was set to reach universal basic education by the year 2000. The good news is that the gender gap was halved, although it remains a concern in many countries in sub-Saharan Africa, South Asia and the Middle East and North Africa. The sad truth is that global progress during the 1990s was only a fifth of what was needed to achieve universal primary education. It is not surprising that the goalpost was moved to 2015; but at the current rate of progress, the promise will not be kept either if progress does not accelerate two-fold. In 2000, nearly 120 million school-age children were not enrolled in primary education—about the same as a decade earlier. They will join the ranks of the nearly 1 billion adults who cannot read or write, and who are increasingly concentrated among women. Widespread illiteracy is a source of deepening poverty, rising inequality, and slowing growth. Countries cannot expect to integrate into the global economy without equipping their people with basic capabilities.

Failure to meet the education goal also impacts negatively on the chances of reaching the other goals and targets for human development.[2] Progress on under-five mortality, maternal mortality, child malnutrition, access to safe drinking water and adequate sanitation was too slow to reach agreed targets. Progress actually slowed down compared with earlier decades. Diagram 2 depicts global trends for primary education and child mortality, spanning the past 4 decades. It is clear that progress levelled off in the 1990s.

Diagram 2: Average under-five mortality rate and primary enrolment ratio in developing countries



Source: Based on UNICEF and UNESCO data

There are no obvious reasons that can readily explain the slowdown. Average economic growth in the 1990s was higher than in the 1970s and 1980s, often fuelled by a rapid expansion in trade and financial flows, yet social progress slowed down. There is no single cause for the slowdown, and the reasons are likely to be country-specific; but often relate to insufficient and inefficient public spending, crippling debt burdens, falling commodity prices, inadequate access to markets in developed countries, declining official development assistance and widening gaps between rich and poor. If the 1980s are remembered as the 'lost decade for development'; the 1990s may go down in history as the 'decade of broken promises'.

In the early 1990s, the late James Grant—then UNICEF Executive Director—argued, "the problem is not that we have tried to eradicate global poverty and failed; the problem is that no serious and concerted attempt has ever been made". Indeed, without concerted and intensified efforts, 2015 will meet few of the Millennium Development Goals at the global

[2] The Millennium Declaration distils the major development goals and targets that were agreed at global conferences and world summits during the 1990s [United Nations, 2000].

level. The HIV/AIDS pandemic poses a formidable treat to accelerating progress in the future.

3. Is $1-per-day a valid poverty gauge?

Poverty is now broadly interpreted as multi-dimensional, yet its principal measure remains one-dimensional. Indeed, $1 per day per person has become the international benchmark for measuring the extent of poverty in developing countries. It is based on studies conducted in the mid-1980s in some 33 countries. Eight countries—including Bangladesh, Indonesia, Morocco, Nepal, Kenya, Pakistan, the Philippines and Tanzania—turned out to have a national poverty line of about $1 per day per person, expressed in purchasing power parity (PPP) of 1985 [Ravallion, Datt and van de Walle, 1991]. The international poverty line has been updated, using an expanded set of PPP-values at 1993-prices. The new poverty line of $1.08 is the median value of the lowest 10 poverty lines among the same 33 countries [World Bank, 2000].

It must be pointed out that the international poverty line is not based on a global common basket of basic goods and services; but on the average or median of some 8-10 national poverty lines—each based on a different basket but converted into the same numerator, using PPP-values.

Technical issues related to PPP-values affect the reliability of global poverty trends. Information is not readily available to appreciate whether the updated poverty line is based on the same 8-10 countries. In addition, the updated line is based on the median value, whereas the original one is based on the average—raising some questions about their comparability. PPP conversion rates for different years are not comparable, so that the claim that they measure similar purchasing power in terms of the command over domestic goods [Chen and Ravallion, 2001] is ultimately unverifiable. Reddy and Pogge [2002] give a thorough discussion on the important technical aspects of the international poverty line.

The international poverty norm presents another difficulty, apart from the technical issue of PPP-values. The fundamental question is whether the $1-per-day norm is valid for tracking change over time or for comparing poverty levels among countries. The main problem with the norm is that it violates the standard definition of income-poverty; i.e. a person is considered poor when he/she does not reach a minimum level of economic well being set *by society.*

Absolute poverty inevitably has a relative dimension. For the purpose of measuring income-poverty over time or for comparing poverty levels across countries, the norm cannot be kept static and applied uniformly to all societies. As societies reach higher levels of development, the conceptual relevance of $1 per day gradually erodes as a measure of income-poverty.

At the beginning of the 20th century, for instance, Rowntree [1910] estimated a poverty line of 26 shillings per week for a family of six in the city of York. It would be inappropriate to use the same poverty line—adjusted for inflation and family size—to

estimate current levels of poverty in the United Kingdom. Keeping the poverty line unchanged at Rowntree's level would mean that some basic goods and services would never have a place in the basket of basic necessities—such as piped water, electricity, urban transport and essential drugs.[3]

The poverty line must be sensitive to the average level of economic well being of the group or society for which poverty is monitored. Oster *et. al.* [1978], for example, show that the poverty line in the United States rose by more than 40 per cent in real terms between 1935 and 1960. Based on 60 family budgets in the United States between 1905 and 1960, Fisher [1997] reports that the minimum subsistence budget rose by about 0.75 per cent for every 1 per cent increase in disposable per-capita income of the general population. He adds that more recent evidence from other high-income countries indicates that the income elasticity of the poverty line ranges between 0.6 and 1.0.[4] It could be that the poverty line is less elastic at lower levels of per capita income, but the elasticity is unlikely to be zero—as global poverty estimates assume.

Hanmer *et. al.* [1999] find a clear tendency for more affluent countries to set higher poverty lines, based on 26 poverty assessments in sub-Saharan Africa. The international poverty line for Latin America is often fixed at $2 per day, while that for countries in Eastern Europe and the former Soviet Union is sometimes set at $4 per day—an implicit admission that the income elasticity of the poverty line is not equal to zero.

A recent report on rural poverty in China calculates that the official poverty line is equivalent to $0.66 per day (in constant 1985 PPP-values). It states that such an austere standard was useful when the incidence of extreme poverty was high, but argues that government should "consider whether the international standard [of $1 per day] may now be a more appropriate measure to gauge the extent of poverty" [World Bank, 2001a]. If the income elasticity of China's official poverty line is seen to be greater than zero, that of the international poverty line cannot be assumed to be zero.

Thus, the poverty line cannot be frozen by disassociating it from the average standard of living of society. Ravallion and Bidani [1994], for instance, note that Indonesia and the United States reported a similar level of income-poverty for 1990. Obviously, their poverty lines were very different, based on the respective average standard of living in the two countries. As countries become wealthier, societies gradually adopt a higher level of minimum economic well being.

A change in the proportion of people struggling to survive on less than $1 per day does not necessarily mean a similar change in the incidence of poverty.[5] The fact that the proportion

[3] Another weakness of the $1 per day poverty norm is that it does not measure access to basic goods and services that are publicly provided. Access to such services is often critically important for the poor; but an income above or below $1 per day says nothing about access to and quality of public services.

[4] An income elasticity of 1 turns the absolute poverty line into a relative one—defining the poor as those with an income below, for instance, one-third or one-half of the average national income level. Poverty reduction is then made entirely dependent on improvements in the distribution of income.

[5] "Struggling to survive on less than $1 per day" describes more accurately the daily reality faced by millions of poor people, than the expression "living below $1 per day".

of the population below the $1-per-day norm decreased from 30 to 10 per cent—as was the case, for instance, in Indonesia between 1980 and 1995—cannot be equated with the interpretation that poverty fell by two-thirds. The minimum poverty norm set by that society is likely to have risen over the period, due to increased national prosperity.

In short, the use of the $1-per-day poverty norm under-estimates the extent of global poverty; at the same time it over-estimates progress in reducing income-poverty. These distortions could be avoided by using national poverty lines that are regularly adjusted. Updating the poverty line is not without controversy, but it does not justify the use of a frozen poverty line by assuming an income elasticity of zero.[6] Adjustments must be made to the poverty norm to take account of the changes in national prosperity.

Monitoring progress toward the global poverty target does not require an international poverty line. The use of national poverty lines—without having inaccurate PPP conversion rates—may not readily yield a quantitative estimate of global poverty, or produce internationally comparable poverty data. But global poverty estimates based on $1 per day are not robust either, and the quest for comparable poverty data is elusive. When poverty estimates are subject to very large margins of error, they cease to be useful for tracking progress over time or comparisons across countries.

Given the inherent weaknesses associated with the fixed and static international poverty line of $1 per day and given the inaccurate PPP conversion rates, global poverty estimates are not a reliable source of information for the international community.[7] Instead, trends based on national poverty lines are likely to provide more meaningful information on whether the world is on track for achieving the global target of halving income-poverty between 1990 and 2015.[8] The advent of the Poverty Reduction Strategy Paper (PRSP)—if prepared in a participatory way—offers a timely opportunity for using an appropriate and adjustable national poverty norm to track progress over time.

4. Are statistics for China unduly biasing global poverty trends?

Poverty estimates for China influence global poverty levels in a substantial way. Getting them right is important for an accurate assessment of global poverty trends. But different sources give very different poverty trends for that country. The latest estimates—based on the international poverty line of $1 per day in PPP-values—show little change in poverty

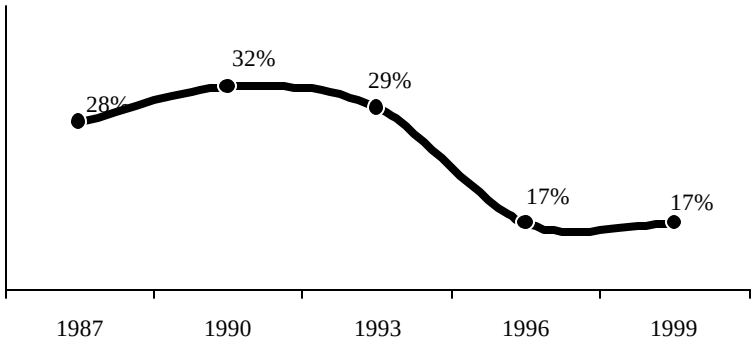
[6] Fisher [1997] documents that analysts were aware of the importance of the income elasticity of the poverty line before the first official poverty line was set in the United States in 1969. He ascribes the assumption about zero-elasticity to the growing involvement of macro-economists in poverty studies during the 1960s, replacing social workers and advocates of disadvantaged groups as primary actors.

[7] Morrisson [2002] correlates malnutrition with income-poverty, using national and international poverty lines. He concludes "The results of the econometric tests are clear: the number of malnourished children is correlated to the number of poor individuals if we use the national poverty line (values of R^2 reach 0.70). The results are less satisfactory, however, when we use the measure of $1 or $2 per day." (p.13).

[8] In 1997, a group of experts from the United Nations, World Bank and OECD discussed relevant indicators for monitoring progress towards the international development targets. Some made the case for using national poverty lines; but that view did not prevail and current practice favours the norm of $1 per day.

between 1987 and 1993, a steep decline between 1993-96, followed by stability in 1996-99 (diagram 3).[9]

Diagram 3: Poverty incidence in China
(based on $1/day)



Source: Based on World Bank data [2002]

These figures imply that the number of people who struggled to survive on less than a $1 per day dropped by a staggering 138 million between 1993 and 1996—an average of 125,000 people per day for three years running.[10] A decrease of 4 percentage points per year in the poverty headcount index for three consecutive years is unprecedented, indeed.

It is not clear why poverty nose-dived between 1993 and 1996. Economic growth was high throughout the 1980s and 1990s, and no major pro-poor policy reforms took effect before or around the 1993-96 interval that could explain the sudden drop.

National poverty estimates, on the other hand, show a more gradual decline in poverty without a significant acceleration in 1993-96. Poverty estimates reported by the Ministry of Agriculture show that the incidence of income-poverty fell by about 1 percentage point per year between 1993 and 1996, compared with 4 percentage points suggested by the World Bank estimates.[11] Similarly, Gustafsson and Zhong [2000] estimate that income-poverty fell by 3 percentage points between 1988-95; also considerably less than the 11 percentage points drop shown by the $1-per-day estimates for the period 1987-96. Based on survey data, researchers at the Economics Institute of the Chinese Academy of Social Sciences found that the rate of rural poverty reduction slowed down significantly between 1988 and 1995, and that urban poverty showed signs of increase [Khan and Riskin, 2000].

[9] Global poverty estimates are often presented with a decimal point, which may give a false sense of sophistication and accuracy. Given their approximate nature, rounded figures are more appropriate.
[10] Implicitly, virtually all poverty reduction in developing countries between 1993 and 1996 occurred in China, while the number of income-poor in sub-Saharan Africa, South Asia and Latin America combined, reportedly increased by about 15 million per year.
[11] The data of the Ministry of Agriculture relate to rural poverty, whereas World Bank data refer to total poverty. Since poverty in China is overwhelmingly rural, the discrepancy cannot be explained by the difference in geographical coverage.

In short, the reported reduction in global poverty during the 1990s cannot be taken at face value.[12] The discrepancies in poverty trends for China are too large to be dismissed as unimportant. Further analysis and debate are needed before firm assertions can be made about global poverty trends.

Finally, China is often quoted as an example where dazzling economic growth dramatically reduced income-poverty. But Gustafsson and Zhong [2000] question the main cause of the poverty reduction. Not only do they point out that the decline in income-poverty was surprisingly small considering the country's impressive growth record, they also show that growth was not the principal force behind the fall in income-poverty. Instead, their data indicate that demographic change was the key factor; i.e. households became smaller in size. Large households represented a much larger proportion of the income-poor in 1995 than in 1988. Pal [2000] draws a similar conclusion from other data sources.

5. Is much of the global poverty debate about 'misplaced concreteness'?

In its search for general laws and rules to explain complex realities, macro-economics tends to analyse poverty's causes at the aggregate level. But averages can be misleading, and excessive reliance on aggregate indicators and averages can unduly bias policy-making. An average is nothing more than an abstract concept created to help us understand complex realities more easily. But averages do not exist in reality; only in the human mind. The moment one ceases to realise that the average is an abstract concept, one can fall victim to the fallacy of 'misplaced concreteness'.[13] The fallacy can lead to unwarranted conclusions about concrete realities—based on deduction from abstractions, not on real observations.[14] Policy analysis, therefore, must go beyond averages to avoid this fallacy. Kanbur [2001] argues that disagreement on economic policies can be explained, in part, by differences in the level of disaggregation of economic analysis.

Poverty estimates based on the frozen $1-per-day norm not only tend to over-estimate the number of people who escape from poverty over time, they are also likely to reinforce the belief that aggregate growth is the best—and often the sole—strategy for reducing poverty. Indeed, the assumption that the income elasticity of the poverty line is zero can lead to a tautological interpretation of the link between growth and poverty. Diagram 4 shows that the incidence of income-poverty and per-capita GDP are indeed correlated.

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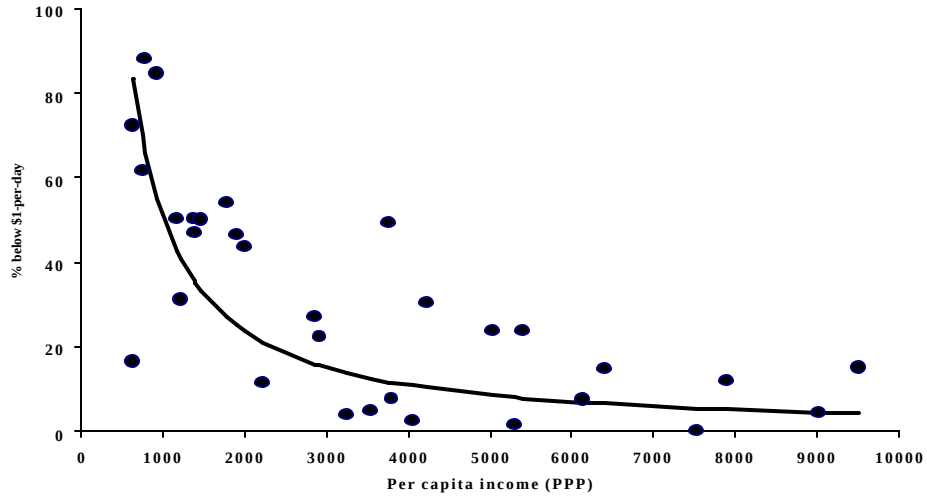
[12] Footnote 5 on page 6 of a mimeographed World Bank paper [2001b] refers to reliability problems associated with poverty data for China. But such data problems are not limited to China; they are inherent to the use of the poverty gauge of $1/day in PPP-values.

[13] Daly and Cobb [1994] explain this term in detail, which was coined by Alfred North Whitehead who wrote in 1925 that economics "fixes attention on a definite group of abstractions, neglects everything else, and elicits every scrap of information and theory which is relevant to what it has retained." [quoted in Daly and Cobb, p. 36].

[14] Abstractions that commonly lead to the fallacy of 'misplaced concreteness' include assumptions of perfect information, perfect competition, neutral institutions, Homo Economicus and independent utility functions. A concrete example of 'misplaced concreteness' is when average GDP per capita is used as a proxy for economic well being, thereby forgetting that it measures only a limited range of welfare dimensions that involve market transactions. The use of computers—which make number crunching easier and cheaper—certainly augments the danger of 'misplaced concreteness' in economic analyses.

Diagram 4: Poverty incidence by average income level



Source: Based on World Bank data

Although the evidence may look compelling, correlation is beside the point. Poverty and growth are endogenous variables; the close correlation between income-poverty and economic development is, to a large extent due to circular reasoning based on the use of a frozen poverty line.

A logarithmic regression fitted on the 31 country observations in diagram 4 yields a slope coefficient of -1.1. This implies that for every 1 per cent increase in per capita income, poverty declines by 1.1 per cent. Statistically speaking, the coefficient is not significantly different from one. Recent analyses have used similar cross-country data to examine the relationship between growth and poverty.[15] They generally find a coefficient that is not significantly different from one. Dollar and Kraay [2000], for instance, use 370 observations from 125 countries and conclude that the average income of the poor increases by the same proportion as overall income. They argue that the finding holds true for both poor and rich countries, as well as for countries that experienced positive or negative growth. Is it possible that simple hydraulic systems exist in the real economy? No, such findings merely illustrate the danger of 'misplaced concreteness'.

The fact that the income of the poor rises one-for-one with overall per capita income may be statistically correct, but it is not necessarily true. The application of the same method to random numbers yields similar results.[16] The argument that a one-for-one relationship

[15] For example, Roemer and Gugerty [1997]; Gallup *et. al.* [1999]; and Dollar and Kraay [2000].

[16] A series of 370 random numbers between 100 and 20,000—a plausible range for average per-capita income levels—is multiplied by another series of 370 random numbers between 10 and 50 per cent—a plausible range for the income of the bottom quintile as a proportion of the average per capita income level. This yields a random series for the average income of the poor. Next, the logarithmic value of series 1 and 3 are regressed. The resulting R^2 is 0.84, only slightly less than 0.87 obtained by Dollar and Kraay [2000]; the

exists between the income of the poor and average per capita income is more the result of the methodology and definitions used rather than of actual behavioural relationships—more theory than reality; a mere example of the fallacy of 'misplaced concreteness'.

Based on available evidence, it is safe to conclude that there is no solid empirical ground or intuitive reasoning to argue that a systematic relationship exists between average aggregate growth and the income of the poor.[17] More growth does not necessarily mean less poverty. It is striking that the results of a simple regression can exert so much influence on so many people—policy-makers, researchers and journalists alike. Scientific evidence, especially in the social sciences, is usually gradual and cumulative; findings are often more persuasive than clinching. Admittedly, different people need different levels of persuasion but the totality of available data is insufficient to be swayed by simple cross-country regression analyses.[18]

6. Is equity good for the poor?

The money-metric poverty gauge invariably leads to the conclusion that lack of growth is the main cause of poverty. Concerns about equity are often ignored; based on either the belief in the Kuznets curve, or the argument that growth is distribution-neutral, or the conviction that inequality is a necessary incentive for growth. The fact remains that a money-metric measure of poverty leads to the conclusion that poverty reduction is best served by stepping up the rate of economic growth.

However, two stylised facts emerge from recent analyses: high inequality limits the impact of aggregate growth on poverty; and it slows economic growth. Persson and Tabellini [1994: p.600] state, "inequality is harmful for growth." After reviewing the growth literature, Temple [1999, p.146] concludes, "it has become extremely difficult to build a case that inequality is good for growth." Dagdeviren *et. al.* [2000, p.23] find that "greater distributional equality provides a favourable initial condition for rapid and sustainable growth." Ravallion [2000, p.15] writes, "On balance, the existing evidence […] appears to offer more support for the view that inequality is harmful to growth than the opposite view, which was the prevailing view in development economics for decades."

Economic growth has an obvious role to play in poverty reduction, but if inequality inhibits growth then equity must be good for the poor because it will help sustain growth. This is not a matter of being against growth but about identifying relevant and specific policy measures that will improve the economic well being of the poor in particular.[19] If inequality slows economic growth then the conventional argument that a policy of redistribution will merely share poverty, not wealth, is not valid. Empirical evidence shows

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slope coefficient is 1.03 compared with 1.07. Statistically speaking, they are not significantly different from one.

[17] This is shown by several studies, including Ravallion and Chen [1997]; and Deininger and Squire [1998].

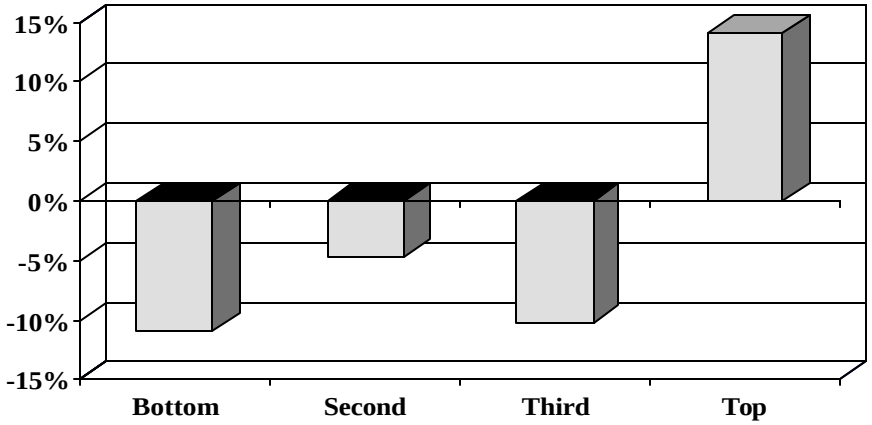
[18] Given the conceptual and measurement problems associated with global poverty data, a code of conduct for running cross-country regressions may be warranted—if not an outright moratorium.

[19] The experts who met in 1997 to select appropriate indicators for monitoring the poverty target agreed to include the share of the bottom quintile in national consumption. But current practice largely ignores the equity measure, and relies almost exclusively on the headcount index based on the international poverty line.

a very close link between asset inequality—land and education in particular—and slow growth.

A growing body of data suggests that income disparities are widening, both between and within countries.[20] No matter how it is measured, it is increasingly difficult to dismiss as anecdotal the evidence that inequality is on the rise in most countries, as well as at the global level. Milanovic [1999] derives a world income distribution by combining the results of household budget surveys covering 85 per cent of the world's population into one grand distribution—using PPP-values. The results indicate that the richest 10 per cent of the world population control about half of global income, while the bottom half earn less than 10 per cent of global income. He also shows that income distribution worsened markedly between 1988 and 1993. More seriously, however, is the finding that the poor not only lost in relative terms but also in absolute terms. Milanovic arrives at the stunning conclusion that three-quarters of the world population saw their real income fall between 1988 and 1993—with the largest drop occurring among the poorest (diagram 5).[21]

Diagram 5: Disaggregated change in real income, 1988-93



(change by income-quartile, based on world income distribution estimates)

Source: Derived from Milanovic [1999]

That inequality is harmful to the poor is further confirmed by data provided by Demery and Squire [1996]. They show that disparities are not only increasing between rich and poor, but also among the poor. Nigeria, for instance, saw the poverty headcount index decline by 9 percentage points between 1985 and 1992; but the incidence of extreme

[20] See UNCTAD [1997]; Galbraith *et. al.* [1998]; UNDP [1999] and Cornia [1999].

[21] A recent study by the United States Congressional Budget Office depicts a similar trend. It shows that the average after-tax income of the wealthiest 1 per cent of households in the US swelled by more than 150 per cent between 1979 and 1997, dwarfing the income growth of households making less money. The bottom quintile actually saw their average after-tax income drop. The ratio of the average income of the top 20 per cent compared with that of the bottom 20 per cent jumped from 9 to 15 respectively.

poverty increased by 3 percentage points.[22] This led to the paradoxical situation in which the number of poor declined, yet the number of destitute people increased.[23]

Anti-poverty strategies often overlook equity concerns. The three conventional prongs are labour-intensive growth, investment in education and health, and social safety nets [World Bank, 1990]. Equity is seldom mentioned as an explicit goal. From an operational point of view, however, an anti-poverty strategy that includes equity as an explicit objective can be translated into specific policy instruments—such as progressive taxation, income transfers, subsidies, elimination of user fees for basic social services, public work programmes and land reform.[24] An anti-poverty strategy that is growth-led is much shorter on specific policy instruments.

Aggregate growth is not a choice variable but the outcome of many factors and interactions—including inequality. Not only does the concept of 'pro-poor growth' lack credibility in a world where income gaps are widening and where the poor see their income fall, it also remains fuzzy in terms of choosing and sequencing appropriate policy reforms. It is not clear whether pro-poor growth is pro-jobs or pro-wages, pro-agriculture or pro-industry, pro-government or pro-business.

Economists have to admit that there is no simple answer to the question of what causes rapid economic growth; let alone what makes it pro-poor. Trickle down seldom reaches far beyond the middle class. Aggregate growth and more jobs do not guarantee a ticket out of poverty because they seldom address its structural causes. Most of the poor are either unaffected by aggregate growth[25] or have a job but belong to the 'working poor'. Among the testimonial evidence presented in 'Voices of the Poor' [Narayan *et. al.*, 2000, p.39], a poor woman in Cambodia says, "Poverty means working for more than 18 hours a day, but still not earning enough to feed myself, my husband, and my two children."

7. Is a social shock absorber feasible and affordable?

The 1990s saw strong economic recovery in Latin America. Stiglitz [1998, p.1], then Chief Economist of the World Bank, noted, "the region followed our advice and carried out some of the most successful macroeconomic stabilization programs the world has ever seen." But the single-minded determination to implement the Washington Consensus did not prevent unemployment and poverty from rising and inequality from worsening [Birdsall and de la Torre, 2001]. A decade of sustained reforms and economic liberalisation resulted

[22] A similar story emerges for rural Kenya [1981-91] and rural Tanzania [1983-91].

[23] Thus, the threshold at which the poverty line is fixed very much influences the resulting poverty trend. Pyatt [1999] notes "the conclusion that 40% of the population in country X is poor should be read as saying that the poverty line has been drawn for country X in such a way that 40% of the population is poor." (p.13).

[24] Hanmer *et. al.* [1999] find that most poverty assessments in sub-Saharan Africa during the 1990s were silent on land reform, as they were on other forms of asset redistribution. So far, most PRSPs are also silent on equity-enhancing policy reforms.

[25] It must be pointed out that the rate of economic growth for a country is an average indicator that hides enormous differences among groups of households and individual families, including changes in opposite directions. It is likely that the distribution of growth within the country will be strongly influenced by the distribution of human, physical and financial capital. Hence, an average growth rate of 5 per cent is no guarantee that the poor will see their income rise by a similar rate, if at all.

in a meagre harvest in terms of social progress and equitable development. And Latin America was not alone; faster growth in South Asia did not prevent the number of income-poor from rising. Clearly, social equity has been the missing link between economic growth and poverty reduction.

If robust economic growth in places as far apart as South Asia and Latin America does not significantly reduce income-poverty, then there is a strong case for social policy to ensure that growth is translated into poverty reduction. At some point, people are likely to oppose inequitable market outcomes; no one knows where the breaking point is, but it would be unwise for any government or for the international community to experiment to locate it.

If inequality between and within countries continues to rise, it could affect the sustainability of the globalisation process. Henry George [1882, p.7] put it succinctly when the world was experiencing an earlier spell of globalisation: "So long as all the increased wealth which modern progress brings goes but to make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent." Economic history of the first half of the 20th century shows that the sustainability of globalisation should not be taken for granted.

It is the disregard of the fate of those who bear the costs associated with globalisation that fuels popular discontent—even fear.[26] Inadequate cushions to protect them—both at the global and local levels—drives the movement against 'globalisation as we know it'. It is no coincidence that small open OECD economies—such as the Benelux and Nordic countries—have one of the largest public sectors to cushion some of the negative effects of openness on the vulnerable groups [Rodrik, 1998].

It would be a great tragedy were the wheels of progress to be slowed down by the inability of national governments and the international community to assist those who are bearing a disproportionate share of the cost of globalisation. The powerful forces of technological progress cannot be arrested, just as the benefits from market principles cannot be ignored. But the distribution of the costs and benefits of globalisation among socio-economic groups must be made more equitable, mainly through public action and social policy—both locally and globally. Markets can be made to deliver more equitable outcomes, which will ultimately prove efficient and efficient in reducing poverty.

The onus of good social policy should not be placed on national policies alone, but should also have a bearing on the formulation of global rules and regulations—for fairer trade and more aid, limited protection of intellectual property rights,[27] more effective commodity price stabilisation schemes, and other measures. This is in line with the call made by the ministers and heads of aid agencies in donor countries for greater consistency in

[26] Recent polls show a deep divide regarding the perception on free trade. Only one-third of American families with less than $50,000 in annual income hold a positive view of free trade, while nearly two-thirds of those with an annual income above $75,000 hold such a positive view; and that percentage increases as income rises.

[27] Including the expansion of mechanisms such as compulsory licensing and parallel imports of products that are subject to trade-related intellectual property rights (TRIPS).

industrialised countries between agricultural, trade, and investment policies on the one hand, and development co-operation on the other [OECD/DAC, 1996].

Proponents of rapid globalisation and liberalisation often use the metaphor of the bicycle to argue that the economy needs constant reforms and liberalisation to maintain momentum. The same metaphor can be used to emphasise comfort instead of speed. Until recently, bicycles came without shock absorbers; the idea of installing them came after potholes appeared on the road to globalisation, especially in the wake of the East Asian crisis in 1997.

As the road to globalisation will be bumpy, an economic shock absorber is being installed on the front wheel to help control the handle-bars. It includes Chile-styled cooling mechanisms of so-called 'hot-money'; flexible exchange rate regimes, better banking supervision, greater transparency in financial reporting, and adequate bankruptcy legislation.

But a social shock absorber is needed too. The countries that were hardest hit by the financial crisis in East Asia lacked a good social shock absorber. Indonesia's and Thailand's under-investment in basic social services contributed to their vulnerability to the financial crisis.[28] Therefore, the next step is to install a shock absorber on the rear wheel for a smooth and uninterrupted journey to join the global economy. Universal coverage of basic social services plays this role. It is financially affordable and technically feasible.

As a concrete example of partnership between developing and industrialised countries, the UN launched the 20/20 initiative in the early 1990s. The initiative calls for the allocation of an indicative 20 per cent of the national budget in developing countries and 20 per cent of donor aid to basic social services.[29] The initiative's aim is universal access to an integrated package of basic social services of good quality—by spending more and by spending better. Studies in over 30 countries show that the share of the national budget allocated to basic social services ranges between 12-14 per cent [UNICEF and UNDP, 1998]. Few countries spend close to 20 per cent; fewer still spend less than 10 per cent on these services. The share of official development assistance (ODA) directed to basic social services varies greatly between countries, as well as over time. Overall, between 10 and 12 per cent of total ODA is allocated to basic social services [OECD/DAC, 2001].

The financial cost of achieving universal coverage is modest, whereas the benefits that beckon are enormous. The global shortfall in public spending to ensure universal coverage of a minimum package of basic social services is equivalent to about one-third of current spending—or about $80 billion per year (at 1995 prices) [UNDP et. al., 1998]. The full

[28] Their female secondary enrolment ratio was considerably lower than in Malaysia and the Philippines—two countries that weathered the crisis better (40 versus 70 respectively). One-third of Indonesia's children under the age of five were underweight in 1995—a proportion that was higher than the average for sub-Saharan Africa. These indicators are uncharacteristic for a so-called 'miracle economy' that reduced poverty in a spectacular way.

[29] Basic social services comprise basic education, primary health, reproductive health, water and sanitation, and nutrition.

implementation of the 20/20 initiative would generate enough resources to bridge the gap. Although large in absolute terms, $80 billion represents about one quarter of 1 per cent of global annual income.

But social policies recommended by the international financial institutions during the 1990s were not driven by the objective of installing such a social shock absorber. Although IDA lending[30] to the social sectors doubled in importance during the 1990s—from about 20 to 40 per cent—an independent evaluation by the Operations Evaluation Department of the World Bank makes sobering reading [World Bank, 2001c]. After reviewing IDA's anti-poverty work between 1994 and 2000, it concludes, "the development outcomes of IDA programs have been partially satisfactory" (p.91).[31] IDA countries had a mixed record in sustaining growth. While macro-economic stability improved and many economic distortions were removed, no strong evidence emerged as to whether the poor saw their income and employment opportunities increase. It proved difficult to come up with practical policies to achieve not just growth but equitable growth; concrete measures were usually missing to transmit the benefits of policy reforms to the poor. Access to and quality of service delivery to the poor hardly improved.

User fees, narrow targeting and safety nets were central to social policy recommendation based on the Washington Consensus. A review of the theoretical arguments and empirical evidence regarding user financing of basic social services leads to the following conclusions [Reddy and Vandemoortele, 1996]: (i) user fees reduce demand for services, particularly among the poor; (ii) protecting the poor is difficult; exemption schemes are costly to administer and are seldom effective; (iii) user fees tend to aggravate gender biases, seasonal variations and regional disparities; (iv) they collect very modest amounts of money compared with the budgetary resources allocated to basic social services; (v) basic social services are subject to principal-agent interactions and asymmetrical information so that price signals will not automatically lead to optimal demand; and (vi) user fees do not guarantee greater efficiency and effectiveness because basic social services are public goods that have strong synergies and positive externalities.

Inadequate social budgets often lead to targeted interventions on narrowly defined groups or areas. Narrowly targeted programmes are increasingly prescribed for reasons of efficiency and cost savings, for they minimise leakage to the non-poor. Obviously, the merits of narrow targeting depend on the nature of the goods and services that are being targeted. Targeting fertiliser subsidies to smallholders or micro-credit to poor women, for instance, is very different from targeting vouchers for primary education. Thus, generalisations about targeting are of limited use. With respect to basic social services, narrow targeting has important hidden costs [Vandemoortele, 2000]: (i) the cost of mis-

[30] The International Development Association (IDA) was established in 1960; funds come from donor contributions, augmented by transfers from net earnings of the International bank for Reconstruction and development (IBRD). IDA credits have to be repaid over a period of 35-40 years, after an initial grace period of 10 years. They carry no interest, but have an annual service charge of 0.75 per cent. No specific figures are available, but a 70 per cent grant element of IDA loans is often quoted. Since 1960, IDA has lent over $100 billion. Repayments are turning IDA into a quasi endowment fund—expected to be self-financing by 2015.

[31] A footnote makes it clear that "Management [at the World Bank] does not agree with OED's [Operations Evaluation Department] assessment" [World Bank, 2001c, p.109].

targeting, due to the difficulty to identify the poor; (ii) cost of failing to reach the poor, as the non-poor seldom let subsidies pass by; (iii) cost of administering narrowly targeted programmes; control of mismanagement and petty corruption; (iv) cost of out-of-pocket expenses to document eligibility, which involves expenses such as bus fares; and (v) cost of non-sustainability. Once the non-poor cease to have a stake in narrowly targeted programmes, the political commitment to sustain their scope and quality is at risk. The voice of women and the poor alone is usually too weak to maintain strong public support. The latter is why programmes for the poor frequently end up as poor programmes.

Although social safety nets promote rapid responses to crises, they are not sufficient as social shock absorber. They claim to be efficient but they are not necessarily effective. Indeed, ex-post safety nets are usually under-funded, slow to take-off and seldom reach the poorest. There is no doubt that public spending on basic social services includes wastage; but those who argue that existing budgets have to be used more efficiently before investing more public money miss the important point that insufficiencies often create inefficiencies. The dichotomy between more money versus more efficiency is a false one. Most policy-makers do not face a choice between either improving efficiency or increasing budget allocations; both have to be addressed simultaneously. Indeed, inefficiencies and insufficiencies are not independent, but very much interdependent.

In short, a social shock absorber should not be dismissed on the basis of non-affordability. User fees, narrow targeting and safety nets cannot be the mainstay for ensuring universal coverage of basic social services. They are likely to yield savings that are 'penny-wise but pound-foolish'. High-achieving countries such as Costa Rica, the state of Kerala (India), the Republic of Korea, Mauritius, Sri Lanka and others all applied broad targeting; none of them relied on shortcuts.

8. Conclusion

Poverty has many dimensions that cannot be adequately captured by one single indicator. Global poverty estimates based on the $1-a-day norm are inaccurate and misleading. They under-estimate global poverty and over-estimate poverty reduction—giving a false sense of progress and unwarranted complacency. Therefore, they cannot be taken at face value. The norm has led the world community to internalise two incorrect conclusions: that good progress is being made toward the global target of halving poverty by 2015, and that aggregate growth is the best way for reducing poverty further.

The following statement is emblematic of the first point: "If current growth trends and policies persist, it turns out that the world has a pretty good chance of meeting the international targets even if we do nothing" [Collier and Dollar, 2000, p.7]. Given the inherent limitations of global poverty estimates and the danger of 'misplaced concreteness', it seems inappropriate to draw such optimistic inference about the feasibility of the 2015 poverty target.[32] The poor themselves are unlikely to be as upbeat about progress as global trends suggest.

[32] The impact on future poverty trends of HIV/AIDS, environmental degradation, gender discrimination, debt overhang and widening income gaps seems absent from the analysis. Vandemoortele and Delamonica [2000],

Even if all conceptual and measurement issues could be resolved, it must be kept in mind that most of the progress has been due to a few large countries—particularly China, India and Indonesia. When China is excluded, global progress during the 1990s was less than half the rate needed for halving income-poverty by 2015. In addition, the causes for the rapid decline in China's poverty level remain unclear. If demographic change has been a key factor—as some analysts have documented—then it would be unwise to assume that income-poverty will continue its rapid decline. Thus, the simple extrapolation of global trends to 2015 is invalid because large countries will gradually become less able to pull global poverty down as they reach lower levels of poverty. Global poverty projections will only be meaningful if they are based on country-specific projections.

The following quote is illustrative of the second incorrect conclusion: "Poverty rates will continue to fall if growth continues." [World Bank, 2001d, p.21]. Aggregate growth has undoubtedly its place in an anti-poverty strategy; the problem is usually to keep it in its place. The poverty debate cannot be reduced to a series of unhelpful generalisations about aggregate growth and averages indicators. They merely add to the fallacy of 'misplaced concreteness' and risk overlooking the many human faces behind economic realities. This is not about downplaying the importance of growth, but it must be questioned whether aggregate growth is *a priori* good for the poor—irrespective of what happens to equity. If growth is good for the poor and if inequality inhibits growth, then equity must be good for the poor.

Equity does matter for poverty reduction. It would be incorrect to assume that more growth will automatically translate into less poverty. Equity concerns are not about charity, but about laying the foundation for a strong economy and a just society. The fact that the poor do not gain from economic stagnation and recession does not prove—regrettably—that the opposite will be true. The fact that macro-economic instability hurts the poor does not necessarily mean that macro-economic stability will benefit the poor. Much will depend on how stability is achieved. More nuanced positions and conclusions are warranted, given the many complexities that govern the relationship between growth and poverty.

Global inequality and global warming share similar characteristics [Wade, 2001]. Despite the fact that both are less shrouded in scientific uncertainty, they continue to be pushed off the political agenda by other pressing issues. This is partly due to their diffuse and long-term impact, and partly because nobody seems to be responsible or able to do something about them.

By questioning some of the accepted norms, facts and findings on global poverty and by arguing that equity is good for the poor, one runs the risk of being accused of clinging to outmoded values and defunct policy instruments. But one can draw strength from the words of J.K. Galbraith: "There are times when the enunciation of the most elementary common sense has an aspect of eccentricity, irrationality, even mild insanity."

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for instance, show that the social epidemiology of HIV/AIDS increasingly discriminates against illiterate and poor people, especially young women.

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