

**Economic Policy, Distribution
and Poverty:
The Nature of Disagreements**

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1. Introduction

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The end of history lasted for such a short time. If the early 1990s raised hopes of a broad based consensus on economic policy for growth, equity and poverty reduction, the late 1990s dashed them. The East Asian crisis and the Seattle debacle saw to that. In the year 2000, the Governors of the World Bank, whose mission it is to eradicate poverty, could meet only under police protection, besieged by those who believe instead that the institution and the policies it espouses cause poverty. And the street demonstrations in Prague, Seattle and Washington, D.C., are one end of a spectrum of disagreement, which includes vigorous debate in the pages of the leading newspapers, passionate involvement of faith based organizations, and the genteel cut and thrust of academic discourse.

The last two years have seen my involvement in an extensive process of consultation on poverty reduction strategies.¹ The consultation reached out to most interested constituencies in the academic, policy making and advocacy communities. It covered the IFIs and the myriad UN specialized agencies, Government Ministries in the North and the South, Northern aid agencies, academic analysts in rich and poor countries, Northern and Southern advocacy NGOs, and NGO's with ground level operations working with the poor. It involved a global electronic consultation, as well as conventional written contributions, and scores of meetings. A particularly valuable exercise was the systematic attempt to elicit directly the "Voices of the Poor" through participatory assessments.

This paper presents an analysis of the broad themes of disagreement in these consultations and more generally among those concerned with poverty reduction. It has to be noted first of all that there are swathes of agreement in areas where there would not have been consensus two decades ago. Any discussion of disagreements has to start with an acknowledgement of these areas of agreement. But, clearly, there are deep divisions on economic policy, distribution and poverty. These divisions spilled out in the consultations, mostly

¹ Most of this consultation was under the auspices of the World Bank's World Development Report on Poverty, of which I was Director until I resigned in May, 2000.

politely but sometimes in vehement discourse, written and oral, harbingers of the street battles to come.

The paper tries to answer an obvious question: How can people with seemingly the same ends disagree so much about means, and how can seemingly the same objective reality be interpreted so differently? The simple answer, which the protagonists themselves often provide, is of course to question the motives or the analytical capacity of those ones disagrees with. The suggestion that “the others” are either not truly interested in attacking poverty (quite the opposite, in fact), or that they make elementary errors of fact or interpretation, is never very far below the surface.

However, it is argued here that at least some of the disagreement can be understood in terms of differences in perspective and framework. Understanding disagreements in these terms—rather than in terms of motives or intelligence—is more conducive to encouraging dialogue rather than confrontation. The object of this paper is to provide an account of some of the underlying reasons for deep disagreements on economic policy, distribution and poverty, and to couch these in an analytical rather than a rhetorical frame. But before doing this we need to say a little more about disagreements over what and disagreements between whom.

1. Disagreements Over What and Between Whom?

Disagreements over what? The next section will review some broad areas of consensus on poverty reduction strategies. But the focus of this paper is on disagreements, and these have begun to coalesce around a seemingly irreducible core of economic policy instruments. There are major disagreements on the pace and sequencing of fiscal adjustment, monetary and interest rate policy, exchange rate regimes, trade and openness, internal and external financial liberalization including deregulation of capital flows, the scale and methods of large scale privatization of state owned enterprises, etc. Perhaps trade and openness is the archetypal,

emblematic, area around which there are deep divisions, and where certainly the rhetoric is fiercest.

Disagreements between whom? Any attempt at categorization and classification risks doing violence to a complex and richly textured reality. But the following grouping would be recognizable to many, and captures broad elements of policy disagreements. One group, call them Group A, could be labelled “Finance Ministry”. In this group would obviously be some who worked in finance ministries in the North, and in the South. It would also include many economic analysts, economic policy managers and operational managers in the IFI’s and the Regional Multilateral Banks. A key constituent would be the financial press, particularly in the North but also in the South. Finally, one would include many, though not all, academic economists trained in the Anglo-Saxon tradition. Another group, call them Group B, could be labelled “Civil Society”. This group would obviously include analysts and advocates in the full range of advocacy and operational NGO’s. There would also be people who worked in some of the UN specialized agencies, in aid ministries in the North and social sector ministries in the South. Amongst academics, non-economists would tend to fall into this group.

To repeat, any such classification is bound to be too simple a reflection of reality. There are clearly people who work in the IFIs who are not “Finance Ministry types”, just as there are academic economists trained in the Anglo-Saxon tradition who would, for example, caution strongly on capital account liberalization. The U.N specialized agencies and Northern aid agencies are often a battle ground between Finance Ministry and Civil Society tendencies. And, as the next section makes clear, some NGO positions on specific policies would be approved of in Finance Ministries, and vice versa.

This being said, however, the proposed grouping offers a sharp enough, and recognizable enough, characterization of divisions to help us understand the nature of disagreements. Group A types are those who tend to believe that the cause of poverty reduction is best served by more rapid adjustment to fiscal imbalances, rapid

adjustment to lower inflation and external deficits and the use of high interest rates to achieve these ends, internal and external financial sector liberalization, deregulation of capital controls, deep and rapid privatization of state owned enterprises and, perhaps the strongest unifying factor in this group—rapid and major opening up of an economy to trade and foreign direct investment. On each of these issues, group B types tend to lean the other way.

The real question we face is why? Why is it that these two groups disagree so much across key areas of economic policy? The basic contention of this paper is that much of the reason lies in differences in perspective and framework on three key features characterizing assessments of the consequences of economic policy for distribution and poverty: Aggregation, Time Horizon, and Market Structure. First, Group A tends to view the consequences of economic policy in much more aggregative terms than does Group B. Second, Group B's major concerns are with consequences over a time horizon which is both much shorter and much longer than the "medium term" horizon which Group A typically adopts. Third, Group A instinctively approaches the distributional consequences of economic policy through a competitive market structure, while Group B instinctively thinks of a world in which market structure is characterized by pockets of market power, and economic policy feeds through this non-competitive structure to the consequences for the poor.

The elaboration of Aggregation, Time Horizon and Market Structure, as providing a framework for understanding deep disagreements on economic policy, distribution and poverty, is the core task of this paper. But before elaborating on disagreement, let us consider areas of agreement.

2. Some Areas of Agreement

The consultations revealed wide areas of agreement--some old, some new, and some surprising.

There is no question that there is now broad agreement on education and health outcomes being on par with income in assessing poverty and the consequences of economic policy. This is now so commonplace that it is easy to forget that it was not always the case, that twenty-five years ago great intellectual and policy battles were fought in the World Bank on broadening the conception of development and poverty reduction. Perhaps today's new proposals on conceptualizing poverty—for example, that empowerment and participation should in their turn be treated on par with education and health and income—will equally become tomorrow's foundations.

Another area in which the consultations revealed considerable agreement, at least at a certain level of generality, was on the role of international public goods in determining the well being of the poor. Whether couched in terms of cross border spillovers of environmental externalities or financial instability, or in terms of the central role of basic research into tropical agriculture and tropical diseases, the recognition was clearly abroad that public intervention is needed in these areas. The emerging importance of this issue was instinctively grasped by most. It may well be that this happy state of affairs is due precisely to the fact that this is a relatively new issue in the policy arena, that once we get into the details, divisions will grow. Thus, for example, while there was overall broad support for the idea of a Vaccine Purchase Fund to bridge the gap between the costs of basic research and the purchasing power of the poorest nations, there was already some dissent on such funds being unwarranted subsidies to corporations, who should instead be directed to supply drugs they already have at prices the poorest can afford.

A third area where there is a surprising amount of agreement, or more accurately not as much disagreement as there was twenty or even ten years ago, is on the old “Markets versus State” debate. There has definitely been some coming together on this. Particularly interesting were the positions of NGO's with actual ground level operations working directly with poor. In the consultations, these organizations tended to be very pragmatic. The question for them was always what worked to improve the standard of living of the people

they were helping, not about ideologies favoring state over market or the other way round.

Consider, for example, the work and philosophy of SEWA, the Self Employed Women's Association, which operates in Gujarat State in India.² SEWA grew out of the long history of organizing textile workers in Ahmedabad, but applied and modified those lessons to organizing women in the informal sector. Starting from an urban base, it has now also expanded to organizing in rural areas (<http://www.sewa.org>). SEWA's ground level campaigns, and their national advocacy work, reflects a pragmatism which eschews ideological positions on "state versus market". They have supported certain types of trade liberalization because they increase the demand for the output and labor of their members. But they have opposed other types of trade liberalization when they hurt, for example, the employment and incomes of the husbands and brothers and fathers of their members. They are strong supporters of deregulating the control of the Gujarat State Forestry Commission on the livelihoods of their members. But they oppose deregulation of the pharmaceutical industry because of the devastating impact of these on basic drug prices, and they support increased regulation in Export Processing Zones to ensure that labor standards are met. Is SEWA pro-state or pro-market? It is difficult to say. What is clear is that SEWA is pro-poor. One of their best known pamphlets is in fact entitled "Liberalizing for the Poor."

The more one moves away from ground level operations, the more one moves to advocacy groups of any shade, pragmatism gives way to more defined a priori positions on state and market. But even here, the divides are not as great as they were at the height of the cold war, or at the zenith of post cold war triumphalism which heralded the "end of history". At the turn of the century the real questions are to do with the right balance of market and state, and how things actually work on the ground.

² In July 1999 I was involved in an immersion exercise organized by SEWA and the German Institute for North-South Dialogue. Officials from aid agencies and parliaments were taken by SEWA to stay for a few days with and experience the lives of the women SEWA works for and with.

Alongside this lessened divide on markets versus state, there is broad agreement on the central importance of institutions in regulating markets, in regulating government, in determining the interaction between households in the market place, and thus in determining the outcomes for the poor. One of the striking findings from the Voices of the Poor exercise was how important institutions like the police and the courts were to the reality of poor people's lives. At the macro level, the role of institutions in determining the investment climate was also agreed upon in the consultations. Of course, once again, this was at a certain level of generality. When detailed discussions started, and especially when they impinged on economic policies, divisions tended to appear.

So there is broad consensus in some areas and at a certain level of discourse, to set against the divisions that are the focus of this paper. But these very agreements throw into sharp relief the disagreements that remain. It is almost as if the battle is more intense because it is now focused more sharply on fewer and fewer remaining issues. Let us turn now to the nature of these disagreements.

3. The Nature of Disagreements I: Aggregation

In the current discourse on economic policy, distribution and poverty, there is a strong sense of people talking past each other, each side equally convinced that it has the truth, even when confronted with seemingly the same objective reality. How can that be? One key factor is that different people instinctively operate at different levels of aggregation when they talk about outcomes, or about the consequences of different economic policy interventions. This goes beyond the simple point about GDP versus poverty or other distribution indicators, which is the usual way in which this divide is portrayed. Many in Group A now work with poverty measures which calculate, for example, the fraction of people in a country who fall below a critical level of income or expenditure—the most commonly used threshold is the famous \$1 per person per day poverty line. Even with something like this measure, the two groups have very different

perspectives on poverty outcomes. Some of the differences are obvious, others less so.

The following personal experience illustrates the reaction that many analysts in Group A get when they present their formal poverty analysis to broader audiences. After doing detailed academic work on the Ghana Living Standards Survey in the 1980s and early 1990s, in 1992 I found myself as the head of the World Bank's Field Office in Ghana. My academic work, and that of others, had shown clearly that the incidence of poverty in Ghana, defined as above but with a local poverty line, fell between 1987 and 1991. The exact magnitude varied depending on the detailed calculations, but there was a three or four percentage point decline over these four years. This was pitifully small, but it was actually very good by African standards.

The analysis presented, in common with the best practice in this area, had made all the necessary adjustments and corrections to overcome the shortcomings of these sorts of data. For example, considerable effort was put into correcting for regional price variations, making imputations for dwellings, correcting for household size, etc., in arriving at the poverty measure. But when the analysis was presented in Ghana, very few people believed it. From academics in the Universities, through foreign and local NGO's, to the trade unions and the Rotary Clubs—there was an astonishing degree of disbelief. And this is not an uncommon reaction, at least in Africa, to such analysis which shows poverty decreasing. The natural reactions of Group A analysts to this disbelief usually go through the whole gamut—that people do not really understand the detailed statistical analysis, that those who criticize represent special interest groups, that some people will never admit that they are better off, etc.³ But before dismissing disbelief in this way, it is as well to consider that there might be legitimate reasons for this response, understandable even within the standard framework of household survey based analysis.

³ I include myself among those who have had such reactions.

There are at least three reasons why the claim that poverty had gone down in Ghana, for example, could be questioned. The first of these is well recognized by household survey analysts. The income-expenditure based measurement of well being has improved a lot over the years—for example, production for home consumption is now routinely included, capturing of regional price variation is getting better, and imputing use value to dwellings is also becoming standard. However, one thing that these measures do not capture very well, or at all, is the value of public services. There are separate modules in these surveys with questions on education and health and infrastructure and so on, but these are rarely, almost never, integrated into the income/expenditure measure of well being because of conceptual and data difficulties. And it is this income/expenditure measure that is used in calculating the headline poverty ratios.

So, it is quite possible for public services to worsen considerably and yet for this effect to not show up in the income-expenditure based measures of poverty incidence. If the bus service that takes a woman from her village to her sister's village is cancelled, it will not show up in these measures. If the health post in the slum runs out of drugs, it will not show up. If the primary school text books disappear, or if the teacher does not turn up to teach, it will not show up. But those with ground level operations and personnel will pick these up. And to them, as well as to the poor, the claim that poverty has gone down will ring hollow. None of this is to say that it is not useful to calculate nationally representative, household survey based, income-expenditure poverty measures. It is simply to say that focusing on them solely misses out on desegregated detail which others can help to fill in, and which influences the perceptions and assessments of these others.

The second reason for the disconnect one often finds between household survey based poverty measures used by Group A and the perceptions of Group B is that of regional or group desegregation. Even accepting the income-expenditure based measures to be an accurate representation of wellbeing, quite often a national fall in the poverty incidence can be composed of large movements in opposite

directions. For example, in Ghana, between 1987 and 1991, the fall in national poverty was composed of a fall in rural areas and a rise in urban areas. In Mexico between 1990 and 1994, the fall in national poverty was composed of a fall in urban areas, but an increase in some rural regions. It is important to realize that we are not talking here about the odd household or two getting worse off. The poverty index for entire regions increased. While the fall in the national poverty index, and the falls in those regions which are driving this fall at the national level, are clearly to be welcomed, just focusing on the aggregate picture is liable to miss out the increasing poverty in Accra, the capital of Ghana, or in the Chiapas region of Mexico. And for an NGO working with street children in Accra, or for a local official coping with increased poverty among indigenous peoples in Chiapas, it is cold comfort to be told, “but national poverty has gone down.” A similar story can be told about gender based desegregation, and other groupings based on ethnicity and race.

It should be clear that in the above type of disconnect neither view is “wrong”. Different parts of the same objective reality are being seen and magnified. It is both true that the national poverty incidence has declined, and that major groups have been made worse off. The problem is that instead of attempting to understand the other perspective each side hunkers down to defend its view in increasingly strident terms. Group A analysts just keep repeating that poverty has gone down, and do not make any concessions to the complex group specific patterns, while Group B analysts and advocates become increasingly irritated and alienated from a discourse which does not match the reality they know.

Consider now a third and not frequently appreciated disconnect related to aggregation. The work horse poverty concept of Group A analysts is the incidence of poverty—the percentage of the total population below some poverty line, say one dollar per person per day. This is the concept they instinctively go for. For example, the leading International Development Target, broadly accepted by donor agencies, is to halve by 2015 the incidence of poverty. But analysts and especially advocates and operational types in Group B

instinctively think of the absolute numbers of poor as the criterion. The potential for disconnect should be clear. In Ghana, for example, while the incidence of poverty was falling at around one percentage point per year between 1987 to 1991, the total population was growing at almost twice that rate, with the result that the absolute number of poor, even using the standard income-expenditure based measure, grew sizeably.

Think again of the local NGO with ground level operations. If the number of people turning up to soup kitchens, the number of homeless indigents who have to be provided shelters, the number of street children, increases, those who work in these organizations are, quite rightly from their perspective, going to argue that poverty has gone up. That the incidence of poverty has fallen is of little relevance to them, and to be told repeatedly and insistently that poverty has fallen is bound to lead to difficulties in communication and dialogue. One sees this also at the global level. The World Bank's figures show that over the 1990s the absolute numbers of the poor stayed roughly constant at around 1.2 billion. The incidence of poverty has fallen since world population is on the increase. Has global poverty fallen or stayed the same? One challenge often heard in the consultations was: "How can you say economic growth helps the poor? Look, there has been all this growth in the 1990s, and yet the total number of poor has not changed at all!" Leaving to one side the growth issue, to which a whole section is devoted later in the paper, it is easy to see how communication can be derailed by different groups meaning different things by the same word—poverty. In this case a good start would be clarity and comprehension, but even that might not help because the issue of whether the criterion is the incidence of poverty or the absolute numbers of the poor is still left open.

Thus, instinctive adoption of different levels of aggregation in describing and evaluating the distributional and poverty consequences of economic policies explain at least some of the disconnect one observes. The above arguments and characterizations would all be present for each of the economic policies in dispute—for example, the impact of trade policy reform on distribution and poverty.

Understanding these differences is the first step in more fruitful dialogue between those who primarily rely on national poverty incidence measures derived from household surveys to assess the evolution of poverty, and those who have a much more finely disaggregated view of the outcomes of economic policy. Unfortunately, at the moment the lack of mutual comprehension is leading to polarization, with Group A often retreating into the formal technical bunker, and simply repeating their findings without trying to understand what Group B is trying to say, and Group B dismissing Group A analysis as either out of touch with reality or, even worse, actively manipulated to get certain answers. Neither of these positions is healthy, and bridging the aggregation divide is essential if we are to move forward.

4. The Nature of Disagreements II: Time Horizon

Implicit or explicit differences in the time horizon over which the consequences of policy are assessed explain some of the deep disagreements on economic policy, distribution and poverty.

The “medium term” is the instinctive time horizon that Group A uses when thinking about the consequences of trade policy, for example. This is implicit in the equilibrium theory which underlies much of the reasoning behind the impact of policy on growth and distribution. It is also implicit in the way empirical analysts interpret their cross-country econometric relationships between growth, equity or poverty on one side and measures of openness on the other—the time period over which the effect of change in the right hand side variable is assumed to impact on the left hand variable. There is of course no simple way to link the short or medium or long term of economic theory and modelling to actual calendar time. But by and large when Group A talks about the consequences of policies for distribution and growth they have in mind a five to ten year time horizon.

But Group B has concerns that are both more short term and more long term. Those who work with the daily reality of poor people's lives, are extremely concerned, like the poor themselves, about short term consequences of economic policy which can drive a family into starvation, or lead it to sell its assets at fire sale prices, or to pull its children out of school. For them it is no use to be told that over a five to ten year horizon things will pick up again. In fact, it is not even good enough to be told that in the medium term things will be better than they would have been without the shock of this policy change because without the policy change things were in decline anyway. All this is true, but short run survival trumps medium run benefits every time, if the family is actually on the edge of survival. As Keynes might have said, in the short run they could all be dead.

Increasingly, Group A accepts the issue of short-term vulnerability and shocks as being an important one, not only because it affects well being in the short term, but because behavioral responses to this vulnerability may themselves lead to inefficiencies which affect the prospects for growth and poverty reduction in the medium term. And the issue of safety nets is back on the table, after its banishment in the 1980s, the banishment itself being a reaction to their inefficiencies and misuse in the 1960s and 1970s. However, safety nets are sometimes thought of by Group A as being an add on, to address the negative short term consequences of trade opening, for example. They tend to be cautious about them as a systematic part of an insurance and redistribution mechanism, and they certainly would not want to see trade opening to be halted or slowed down because these safety nets and compensation mechanisms, however temporary, were not in place. This last point is central, and an acid test. In the absence of safety nets, Group B would be cautious or downright hostile to trade openness. Group A would want to press ahead, often dismissing those who argue for caution as either not understanding that openness would actually lead to greater equity and poverty reduction, or as special interest groups with protection on their minds. Not facing up to the implicit difference in time horizon accounts for at least some of the vehement disagreements on this score.

There are also those who have what they see as a much longer time horizon than a decade. Environmental groups, including some with religious perspectives on stewardship of the earth's resources, fall into this category. For them, it is the fifty or the hundred-year perspective that is important. They do not see how economic growth can be sustained given limits on the earth's carrying capacity, and they see immediate and long term negative consequences of resource depletion. An important corollary of this line of thinking is that implicit or explicit redistribution from rich nations to poor nations will have to substitute for economic growth as the foundation for global poverty reduction. Group A are essentially techno-optimists. They refer back to the gloomy scenarios painted by the Club of Rome in the 1970s and point out, quite rightly, that none of these came to be true. While there are clearly some market distortions which lead to an inefficiently high level of resource depletion, and cross border spillover effects which lead to their own coordination problems, their answer is to fix these distortions rather than forcibly hold down investment and growth. In any event, they do not see it as a politically feasible option over the five to ten year horizon to ask the rich countries to undertake massive redistribution in favor of the poor countries, and they have a strong sense that technological change will come to the rescue over a fifty or hundred-year horizon, as it always has in the past.

In the consultations, therefore, Group A was fending off both shorter term and longer term perspectives. But the real point is that oftentimes it was not clear that it was this difference in perspective, rather than the specifics of trade policy or privatization policy or whatever, which was driving the difference. Clarity is not resolution, but it is a start.

5. The Nature of Disagreements III: Market Structure and Power

Undoubtedly the most potent difference in framework and perspective centers on market structure and power. The implicit

framework of Group A in thinking through the consequences of economic policy on distribution and poverty is that of a competitive market structure of a large number of small agents interacting without market power over each other. The instinctive picture that Group B has of market structure is one riddled with market power wielded by agents in the large and in the small. This is true whether they are talking about the power of big corporations in the market place or in negotiating with governments, or of the power of the local moneylender in determining usurious rates of interest in the village economy. They see the formulation and implementation of economic policy as being influenced by agents with market power, and they see policy feeding through to consequences through a market structure which is not competitive.

The immediate response of Group A to the suggestion that openness in trade, for example, might hurt the poor in poor countries is to (implicitly or explicitly) invoke the basic theorems of trade theory. Opening up an economy to trade will benefit the more abundant factor because this factor will be relatively cheap and opening up will increase demand for this factor overall. Since unskilled labor is the factor abundant in poor countries, opening up will benefit unskilled labor and hence the poor. Leaving aside the fact that this is a theory of medium term equilibrium, and thus subject to the disagreements discussed in the previous section, it is also a theory based on competitive product and factor markets. In particular, if local product and factor markets are segmented, because of poor infrastructure or because of the local monopoly power of middlemen and moneylenders, the simple theory will not go through quite so simply. But it is precisely such situations (as well as the disaggregated and the short term consequences discussed earlier) that are highlighted repeatedly in discussions about the possible negative consequences of openness. The tendency among Group A is to dismiss these claims, and to revert again to stating the conclusion that openness is good for equity.

Another example is capital mobility. Leaving to one side the question of portfolio capital, where Group A has itself moved to a

more cautious stance since the financial crises of the late 1990s, there is the issue of mobility of investment capital. A very strong belief in Group B that came across in the consultations was that increased mobility of investment capital makes workers in both receiving and sending countries worse off. Such a view was derided by Group A analysts as being incoherent—“How can you say that when capital leaves the US it hurts US workers, and when it gets to Mexico it hurts Mexican workers as well?!”

Of course in a framework with perfectly competitive markets, it is indeed incoherent to suggest that increased capital mobility makes workers worse off everywhere. At most it will make workers in only one country worse off. Moreover, since with capital mobility capital will move to the highest return, this is more efficient so the gainers could more than afford to compensate the loser, if such a mechanism existed. But now consider the following set up. Capital and labor markets are not perfectly competitive. Rather, capital and labor bargain in each country over wages and employment. Now consider making capital mobile. It can be seen that this is akin to increasing the bargaining power of capital relative to labor, so that increasing capital mobility, whatever its effects on efficiency, could end up making workers in both countries worse off relative to capital. This is the implicit framework Group B used over and over again in the consultations, with added emphasis on the political power of big multinational corporations to influence economic policy on such issues as capital controls or regulation of Foreign Direct Investment. The answer of Group A was to reply with the findings of the (implicit or explicit) competitive framework, and cycle of non-dialogue would go on from there.

The above are examples from trade and openness, but the same divide is present in discussions of the consequences of other economic policies such as privatization of state owned enterprises. The implicit framework of those supporting rapid and large scale privatization is one where state monopoly is replaced by a competitive structure of firms without monopoly power. The implicit framework of those more cautious in this regard is one of a state

monopoly, which might be at least somewhat responsive to the needs of consumer through political pressure, being replaced by a private monopoly with no such restraints.

The point of the above discussion is to highlight differences in basic frameworks used instinctively in thinking through the distributional and poverty consequences of economic policies. Of course many in Group A are aware of how non-competitive elements can affect their predictions (for example, trade theory has made great strides in recent years in incorporating elements of monopolistic competition), but in policy discourse it seems as though Group A has by and large plumped for the competitive market structure framework. But thinking through the distributional consequences of economic policies when market structures are not competitive, in the small or in the large, will be needed before the framework of Group A can be made to speak to the concerns of Group B. For example, whether the capital-labor bargaining framework discussed above is valid is an empirical question that can be tested for different countries and industries. But until such models are worked out commensurately with the now standard competitive framework models, there can be no basis for comparison and assessment. And until that is done, it will be a stand-off between two very different perspectives on market power.

6. A Seeming Disagreement: The “Growth” Red Herring

The word “growth” was immediately divisive in the consultations, with Group A accusing Group B of being “anti-growth”, and Group B characterizing Group A as holding the view that “growth is everything.” In fact, there is more agreement here than meets the eye, and the rhetoric of both groups stands in the way of seeing the degree of agreement that does exist.

Unfortunately, the word “growth” is used in both in its technical sense of “an increase in real national per capita income,” and also to connote a particular policy package, disagreements over key elements of which has been the focus of this paper. This package is “growth

oriented policies” as seen by Group A and “economic policies which hurt the poor” as seen by Group B. If used in the technical sense, one would probably find less disagreement on whether growth so defined could help poverty reduction. Or rather, the discussion could then focus on economic policies and on Aggregation, Time Horizon and Market Structure as discussed in this paper, which is where the true nature of disagreements is to be found.

Consider the claim by some that others are “anti-growth”, usually followed by empirical demonstrations that growth (increase in real per national per capita income) is strongly correlated across countries and over time with reductions in national level measures of income poverty. There is no question that these correlations are very strong indeed. But that is not the point. In all of the consultations over the two years, not one person from Group B in Eastern Europe, for example, claimed that the disastrous increase poverty and worsening of social indicators in Eastern Europe in the 1990s had nothing to do with the precipitous decline in real national per capita income during this period. Nobody made the even more absurd claim that had the decline in per capita income been even greater, the poor would have somehow been better. The claim that they did make, however, was that the policy package that the transition economies were advised (or forced) to adopt was what led to the decline in per capita income and to the increase in poverty.

As another example, not one person from Group B in East Asia claimed that the tremendous improvement in poverty and social indicators in East Asia, over the thirty years prior to 1997, had nothing to do with the fact that per capita income in these countries multiplied several fold over this period. Nobody made the even more absurd claim that the position of the poor would have been better had this growth been negative. But what they did claim was that the policy package put in place by these countries over these years differed in key elements from the policy package currently being recommended by the IFI’s and some Northern Finance Ministries. Finally, coming to 1997, not one person from Group B in East Asia claimed that the sharp increases in poverty registered in East Asia during the crisis had

nothing to do with the fact that per capita income collapsed. They did not make the even more absurd claim that had the per capita income decline been greater, the poor would have been better off. What they did claim was that the policy package these countries were encouraged to adopt in the mid 1990s, especially rapid capital account and financial sector liberalizations, caused the crisis and the attendant decline in per capita income and the increase in poverty.

To characterize these positions of Group B as claims that growth does not help the poor, and to then refute them by showing the undoubted negative correlation between per capita income and poverty, not only misses the point--it does the debate a disservice as well. The real debate to be engaged is on the policy package and the consequences of different elements of it for distribution and poverty. Correlations between per capita income and poverty are beside the point because the real dispute is about the consequences of alternative policies.

Now in fact, in written and oral contributions from Group B in the consultations, very often one would indeed find statements of the type “growth is not the answer to poverty” or “the IFI’s are obsessed with growth as the answer to poverty.” But an effort must be made to understand what the true meaning of such statements is, from their context and from extended dialogue. Statements such as the ones above captured intent much better if “growth” were replaced by something like “Washington consensus policies” or “the standard IFI package.” It might be argued that one should take the words for what they are, but one also finds very often that Group A uses “growth” as shorthand for “growth oriented policies” by which they would mean a certain type of policy package, the contents of which we have been discussing. If Group A slips into this usage, it is understandable that in responding, Group B does the same. Thus part of the problem is that the word “growth” is used to mean both an increase in per capita income, and to refer to a policy package, and this is true of Group A and Group B.

None of the above is to minimize in any way the deep disagreements that do exist on Aggregation, Time Horizon and Market Structure. Even with growth defined as increase in per capita income, Section 5 has already discussed how some in Group B argue that this is not the answer over a fifty or a hundred year time horizon. Also, Section 4 discussed how any given increase in per capita income could be associated with myriad desegregated patterns of distributional and poverty change, even when national poverty falls. But the vehemence of the “growth” debate, on both sides, is somewhat misplaced if by growth one means simply an increase in real national per capita income. The current growth debate, certainly as presented by some elements of Group A, misses the point, and derails dialogue on the real issues of poverty reduction strategies.

7. On Policy Messaging: Negotiation versus Dialogue

Faced with such deep divisions based on legitimate differences in perspective and framework, what should one do? The answer is clearly to develop dialogue based on an attempt at mutual understanding of the different frameworks, how they can lead to different interpretations and conclusions, what sort of evidence might help to resolve some of the differences, and to come out with measured and nuanced positions. Unfortunately, quite the opposite seems to be happening. Over the past few years, the divide has grown and a polarization has set in. For the IFI’s, the siege of their biannual meetings is proving a traumatic experience. More generally, Seattle both symbolized and crystallized the vehemence of the disagreements. The stance everywhere is one of confrontation and negotiation, rather than understanding and dialogue.

My focus here is on Group A, especially when it presents policy messages that synthesize analytical work. Here again, a negotiating stance seems to be in play, especially among some parts of the IFI’s and the G7 Treasuries. Even when, intellectually and analytically, Group A accepts the complications, qualifications and nuances brought about by considerations of desegregation, differences in time

horizon, and non-competitive market structures, the tendency is for the policy messaging—for example on trade and openness-- to be sharp and hard, for fear that to do otherwise would be read as a sign of weakness by “the other side”. Especially since Seattle, a “line in the sand”, “this far, no further,” mentality seems to have gripped elements of Group A—in the IFI’s, in the G7 Treasuries, in the Financial Press and some in academia. “Give them an inch of nuance and they’ll take a mile of protection” is the mindset. Paradoxically, the growing areas of agreement noted at the outset—for example on education and health, and on institutions—tend to lead to a sharper stance being taken on the remaining areas of dispute on core economic policies.

This is unfortunate. At least twice before, elements of Group A have taken such a hard stance, with a negotiating mindset, and both times have had to retreat after considerable conflict which negatively affected the prospects for future dialogue. The first example of this is capital account convertibility, on which the IFI’s, with the broad support of G7 Treasuries, took a bold stand in the early and mid 1990s, and dismissed those who were sceptical of the benefits and fearful of the consequences. Since the 1997 crisis the tune has changed, but the earlier intransigence did not help the dialogue when the need for a nuanced position was finally recognized.

The second example is debt relief for the poorest countries. Prior to 1995 the IFI’s, again with broad backing from many G7 Treasuries, stood very firm against debt relief. The policy messaging of the time was sharp and hard, for fear that any opening would be the “thin end of the wedge” through which large scale debt write downs would break open the IFI’s. In 1995, the policy messaging changed and indeed began to call for debt relief⁴. It is hard to believe that analysis and evidence suddenly revealed the truth in 1995. Rather, the G7 Treasuries and the IFI’s recognized political pressure from the growing global coalition for debt relief. But the negotiating stance adopted before 1995 sowed seeds of mutual suspicion that affect the

⁴ As the World Bank’s Chief Economist for Africa, in 1995/96 I was a member of the joint World Bank/IMF Task Force which put together the first proposal for debt relief to the Heavily Indebted Poor Countries (HIPC).

dialogue on debt relief today, even under very different circumstances.

There is a second strand of argument in play on the simplicity or complexity of policy messages, this time directed at the IFI's and Aid agencies by some elements of Group A, particularly some in the Financial Press and in the G7 Treasuries. This is that these agencies should keep their policy messages simple, for fear that any complications and nuances will lead them into ever more complicated activities. Keeping their messages simple, in this view, will save the aid agencies from themselves, or at least from their tendency to take on a broader and broader development agenda. This point is made in the context of economic policies, but also in fear that the agreement on the importance of institutions, for example, may lead Aid agencies to intervene where they cannot and should not.

Some clear thinking is needed here. It is perfectly coherent to hold simultaneously the view that the consequences of economic policy for distribution and poverty are complex and nuanced, and that aid agencies and donors cannot and should not attempt too complex a set of interventions in developing countries. Indeed, there is an argument to be made for outside intervention to be highly cautious precisely because of the complexity of the situation on the ground. This is certainly true of institutional reform, but it is also true of economic policy. What is problematic, however, is to present a falsely simple view of the world in the policy messaging emerging from aid agency analysis, as a device to restrain complex and unproductive expansionism by aid agencies. The latter problem must be faced on its own terms, and must not be allowed to influence the synthesis of analysis.

If the world is complex, or if the evidence is uncertain, or if legitimate differences in perspective and framework explain differences in conclusions, analysis must take these on board. And the policy messaging that comes from such analysis must reflect the nature of those complexities. Inappropriate simplifying and hardening of policy messages, either as a way of constraining the operations of

an aid agency, or as a negotiating device because of the fear that nuancing will be seen as a sign of weakness in policy debate, will only serve to polarize the debate further and will not be conducive to broad based dialogue.

8. Conclusion

When the institution whose self-stated mission it is to eradicate poverty can only hold its Annual Meetings under siege from those who believe its mission is to further the cause of the rich and powerful, there is clearly a gap to be bridged. And the gap is not just between the IFI's and their critics. There is a growing divide on key areas of economic policy, even as agreement broadens in other areas. Indeed, the conflict over economic policy gets more intense as the areas of disagreement shrink to what seem to be an irreducible core.

This paper has argued that underlying the seemingly intractable differences are key differences of perspective and framework on Aggregation, Time Horizon and Market Structure. Simply recognizing and understanding the underlying nature of the disagreements in these terms would be one step in bridging the gap. But more is needed. More is needed from both sides, but my focus here is on Group A. For those at the more academic end of that spectrum, the message is that explicitly taking into account these complications is more likely to shift the intellectual frontier than falling back yet again on conventional analysis⁵. For those at the more operational and policy end of the spectrum, especially those in policy making and policy implementing institutions, the message is that recognizing and trying to understand legitimate alternative views on economic policy, being open and nuanced in messages rather than being closed and hard, is not only good analytics, it is good politics as well.

⁵ An equally interesting set of further analytical issues is opened up when interactions between Aggregation, Time Horizon and Market Structure are considered.