Bibliographical Note

This Report draws on a wide range of World Bank documents and on numerous outside sources. Background papers were prepared by Martin Andersson, Armando Barrientos, Carles Boix, Leila Chirayath, Stijn Claessens, Klaus Decker, Ashwini Deshpande, Leopoldo Fergusson, José Fernández-Albertos, Christer Gunnarsson, Emmanuel Gymi-Boadi, Karla Hoff, Markus Jäntti, José Antonio Lucero, Marco Manacorda, Siobhan McInerney-Lankford, Joy Moncrieffe, Enrico Perotti, Vibha Pinglé, Pablo Querubi, Martin Ravallion, Michael Ross, Juho Saari, Rachel Sabates-Wheeler, Carolina Sánchez-Páramo, Norbert Schady, Andrew Shepherd, Milena Stefanova, and Juhana Vartiainen. Background papers for the Report are available either on the World Wide Web http://www.worldbank.org/wdr2006, under Background Papers or through the World Development Report office. The views expressed in these papers are not necessarily those of the World Bank or of this Report.

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Endnotes

Overview

1. The infant mortality rates are computed separately at the province level only, and do not take into account racial, gender, or other social differences. The life expectancy statistics are for race and gender groups, and do not take regional or income differences into account. The real differences between typical individuals with the listed characteristics are therefore likely to be understated. In addition, Nthabiseng's life expectancy could be much lower if she were to become infected with HIV/AIDS, as are many young South African women. Data come from Day and Hedberg (2004). Predicted years of schooling rely on disaggregated information—by province, sex, race, rural-urban location, consumption expenditure quintile, and mother's education—from the Labor Force Survey and the Income and Expenditure Survey for 2000, which were carried out by the South Africa Statistics Office.

2. Predicted monthly consumption expenditures in 2000 for persons with those characteristics were Rand 119 ($45 adjusted for purchasing power parity) for Nthabiseng and Rand 3,662 ($1,370) for Pieter. The average white male with a highly educated mother, who lives in Cape Town and is in the top 20 percent of the distribution, happens to be in the ninety-ninth percentile of the overall income distribution. Data come from the Labor Force Survey and the Income and Expenditure Survey for 2000.

3. There are also income, consumption, and other differences: Sven can expect to earn $833 a month compared with the South African mean of $207 (Nthabiseng will have $44 a month). If Sven had been even luckier, and had been born at the same rank in Sweden's income distribution as Pieter occupied in South Africa, his expected monthly earnings would climb to $2,203. Sven will be able to visit any country on a whim, whereas Nthabiseng and Pieter can expect to spend hours waiting for a visa, which they may or may not obtain.

4. In some cases, such as China's decollectivization of agriculture in the late 1970s, a reform may lead to more efficiency, broader opportunities, and yet greater (intrarural) income inequality. China's experience—and the decompression of wages in a number of transition economies in Europe and Central Asia—is a good illustration of a more general point: because equity refers to fair processes and equal opportunities, it cannot be inferred from income distributions alone. Greater fairness will generally lead to lower income inequality, but not always. And not all policies that reduce inequality increase equity.

5. Mazumder (2005).

6. Other interactions between unequal opportunities and social conditions are also of societal concern, including links between inequality and crime, and between inequality and health. We review them briefly in the report, but focus on the channels of more direct significance to equity.

7. There may be many sound economic reasons for these risk-adjusted interest rates to vary, including fixed administrative loan costs, greater informational asymmetries, and the like. The point is that this affects poorer groups more, in ways unrelated to their investment opportunities, thus leading to both greater inefficiency and the perpetuation of inequalities.

8. These averages are based on actual episodes and refer to the total growth elasticity of poverty reduction, inclusive of any changes in inequality. "Low" and "high" inequality refers to a Gini coefficient of 0.3 and 0.6 respectively. The partial elasticity of poverty to growth, assuming no change in the Lorenz curve, shows a similar decline, but not to zero (see chapter 4).

9. While equity-enhancing redistribution will usually be from richer groups to poorer groups, it could happen that "good" redistributions will be to groups that are not poor, especially those in the middle. This will depend on the nature of the market failure. For example, the initial beneficiaries of a less-captured financial system may be small and medium entrepreneurs. Benefits to the poor will occur when enhanced access to financial services among middle-class entrepreneurs translates into faster growth and job creation.

Chapter 1

1. This formulation draws loosely on Roemer (1998), but it is also related to the works of Dworkin (1981b), Dworkin (1981a), and Sen (1985).

2. See Rawls (1971).

3. See Acemoglu and Robinson (2000), Bourguignon and Verdier (2000), and Ferreira (2001).

4. This theme is one that recurs across many disciplines—in sociology and anthropology see Bourdieu (1986), Bourdieu (1990), and Tilly (1998), in economics see Engerman and Sokoloff (2001), Bénabou (2000), and Piketty (1995).

5. See Acemoglu and Robinson (2000) for various perspectives on the interconnections among cultural, social, and economic inequality, and Stewart (2001) for a general discussion of group-based inequalities.

6. Appadurai (2004).

7. See Bourdieu (1990) on symbolic violence for more on this.

8. Steele (1999).

9. Appadurai (2004).

10. See Rao and Walton (2004) for more on such "inequalities of agency."

11. See also Birdsall, Graham, and Sabbot (1998) and Thorbecke (2005).

12. "Too much" and "too little" are used here with respect to the social optimum. The choices are usually privately rational.

13. The role of high inequality of political power and wealth as a barrier to economic development in the modern era is a rapidly growing area of research. Striking results are reported in Sokoloff and Khan (1990), Engerman and Sokoloff (1997, 2002), Acemoglu, Johnson, and Robinson (2001, 2002), and Banerjee and others (2001). Overviews of the broad set of research questions are Engerman and Sokoloff (2002), Hoff (2003), and Acemoglu, Johnson, and Robinson (2004).

14. This is so if the distribution of talents and informational asymmetries between employers and employees are similar between men and women. Notice that the efficiency gain does not satisfy the Pareto criterion. Some individual men might lose out. The efficiency criterion here is first-order dominance, under the anonymity axiom.

15. Of course, the intrinsic valuation of equity may be reflected in the appropriate distributional weights underpinning these benefits.

16. This has been a recurrent theme in development economics and at the World Bank. For an influential early treatment, see Chenery and others (1994).

17. World Bank (1990).

18. World Bank (2001h).

Focus 1 on Palanpur

1. The study was launched out of the Agricultural Economics Research Centre of the University of Delhi and Oxford University, and then continued from the London School of Economics.

2. Drèze, Lanjouw, and Sharma (1998), 51.

3. Drèze, Lanjouw, and Sharma (1998), 211.

Chapter 2

1. Filmer (2004).

2. See, for instance, Wilkinson (1992) and Wilkinson (2000).

3. High rank, on the other hand, can be protective of health, including enhancing one's resistance to infectious disease.

4. Fujii (2005).

5. Interestingly, for each of the three population groupings, the relative gap in infant mortality between groups rose in approximately half of the countries and fell in the other half.

6. Chaudhury and others (2005).

7. Araujo, Ferreira, and Schady (2004) use a new data set, constructed from individual record data in household surveys for 124 countries. Qualitatively similar results were also obtained by Castello and Domenech (2002) and Thomas, Wang, and Fan (2002), both of which rely on the Barro and Lee (2001) international education data set.

8. See, for example, Kanbur (2000).

9. See Kanbur (2000), Elbers and others (2005).

10. Wan, Lu, and Chen (2004).

11. These correlations hold whether or not between-group inequality is measured on the basis of the conventional or alternative methodology. They also hold after controlling for outliers (although South Africa is a particularly influential observation in the regression of inequality on social group differences). The results also hold when all the between-group shares are combined into a single-count indicator that reflects whether a particular country has a higher-than-median value of the between-group share for a particular population breakdown.

12. Bourguignon and Morrisson (1998).

13. Li, Squire, and Zou (1998).

14. The consumption module in India's National Sample Survey was slightly modified between the 1993/4 round and the 1999/0, compromising both poverty and inequality comparisons over time. Deaton and Kozel (2004) provide a clear overview of the issues and their implications.

15. Deaton and Drèze (2002), Sen and Himanshu (2004) and Banerjee and Piketty (2003) all document increases in inequality, but by varying amounts. These estimates are all predicated on certain assumptions given the fundamental problems of data comparability referred to above.

16. Khan and Sen (2001).

17. Narayan and Yoshida (2004).

18. Nepal National Planning Commission (1995–6).

19. For a sociological perspective on the inheritance of inequality, see Erikson and Goldthrope (2002).

20. Solon (1999).

21. Mazumder (2005).

22. Hertz (2001) for South Africa; Dunn (2003) for Brazil.

23. Solon (2002).

24. World Bank (2001h).

25. Jha, Rao, and Woolcock (forthcoming).

26. Appadurai (2004).

27. See, for example, Fernández-Kelly (1995) on life in the U.S. inner city.

28. Appadurai (2004).

29. This term comes from Nussbaum (2000) and her work on gender discrimination and development, although the core idea has a long intellectual history in social science.

30. It is also important to note that the *appearance* of "internalizing disadvantage" (for example, working slowly, being tardy) can actually be a covert strategy used by marginalized groups to subvert systems over which they otherwise have little influence. See Scott (1986).

31. If income inequality, a static measure, is a good proxy for social mobility, a dynamic concept, then these theories find support in the large literature on income inequality and crime. See, for example, Demombynes and Özler (2005) for a discussion of the subject at the country level, and Fajnzylber, Lederman, and Loayza (2000), among others, on the cross-country level relationship between income inequality and crime.

32. See Narayan (2002) for a categorization of approaches and case studies.

33. See Petesch, Smulovitz, and Walton (2005).

34. Gibson and Woolcock (2005); for methodological details on the broader research project of which this study is a part (and the evidence base on which the assertions made here rest), see Barron, Smith, and Woolcock (2004).

35. See also Rao (2005) on the related idea of such spaces as "symbolic public goods."

36. Maynard (1966); Casagrande and Piper (1969).

37. Oster (2005) has recently argued that hepatitis B affects offspring ratios and has suggested that geographic patterns of hepatitis B prevalence can explain about 45 percent of the missing women. The magnitude of the hepatitis B effect is currently still the subject of controversy (see e.g., Klasen 2005).

38. Das Gupta and others (2003).

39. Lloyd (forthcoming), with original data from The Center for Reproductive Law and Policy.

40. Lloyd (2005)(forthcoming).

41. Agarwal (1994); Deere and León (2003).

42. Mason and Carlsson (forthcoming).

43. Rahman and Rao (2004).

44. Kabeer (1999).

45. Kabeer (1997).

46. This disparity is less apparent in enrollments in primary school, which has become more equitable over the last decade.

47. Browning and Chiappori (1998).

48. See Strauss, Mwabu, and Beegle (2000) for an excellent survey of economic models of intrahousehold allocation.

49. Thomas (1990).

50. Lundberg, Pollak, and Wales (1997).

51. Quisumbing and Maluccio (2003).

52. Heise, Ellsberg, and Gottemoeller (1999).

53. Kabeer (1997).

54. Rahman and Rao (2004).

55. Munshi and Rosenzweig (forthcoming).

56. Quisumbing, Estudillo, and Otsuka (2004).

57. Das Gupta and others (2004).

Chapter 3

1. Deaton (2004), 31. The large differences in mortality do not just exist between rich and poor countries, or between different groups of citizens in poor countries only. In 2002, the median age at death in Australia for indigenous people was roughly 20 years less than that for nonindigenous males, which was approximately 76 years (Australian Bureau of Statistics 2003).

2. Botswana, which has one of the highest HIV/AIDS infection rates in the world, has seen its life expectancy drop from its peak of 60 years in the mid-1980s to 39 years in 2000.

3. Bourguignon, Levin, and Rosenblatt (2004a), 3.

4. See the following quotes that nicely demonstrate the debate on globalization and the inequality of incomes: "Globalization raises incomes and the poor participate fully," *The Economist,* May 27, 2000, 94. "There is plenty of evidence that current patterns of growth and globalization are widening income disparities." Policy Director of Oxfam, letter to *The Economist,* June 20, 2000, 6.

5. Doing this in practice requires household survey data and various adjustments and assumptions—all far from simple—which is why so many people discuss international or intercountry inequality using National Accounts data instead of global inequality.

6. Pritchett (1997).

7. It is important to note that all the evidence presented here refer to *intercountry* or *international* inequality in life expectancy at birth, and not to *global* inequalities, because we do not use any evidence on within-country differences in life expectancy.

8. Goesling and Firebaugh (2004).

9. Note that the declines in life expectancy for the mainly Sub-Saharan African countries do not seem to be a direct result of changes in infant mortality, which in many cases continued to decline. However, as Cornia and Menchini (2005) argue, the rate of decline in infant mortality also slowed down significantly in the last decade, which cannot be explained solely by the changes in Europe and Central Asia and Sub-Saharan Africa.

10. Deaton (2004).

11. Pritchett (forthcoming). The richest quintile is defined based on an asset index created by Filmer and Pritchett (1999).

12. One example of such decomposition is Pradhan, Sahn, and Younger (2003), who claim that less than one-third of the world inequality in child health is attributable to differences between countries.

13. Gwatkin (2002). Again, the richest decile here is defined based on the asset index by Filmer and Pritchett (1999).

14. Preston (1980) as cited in Deaton (2004).

15. Also note that all of the countries that are significantly below the curve, that is, those with much lower life expectancy at birth than their GDP per capita would predict, such as South Africa, are in Sub-Saharan Africa.

16. See Deaton (2004). In fact, Cornia and Menchini (2005) cite the rise in parents literacy and female education as the main reason behind the remarkable declines in infant mortality rates in Latin America and the Caribbean and Middle East and North Africa in the 1980s.

17. The increase in inequality between countries in life expectancy at birth in the 1990s is also confirmed by Goesling and Firebaugh (2004).

18. A recent paper by Brainerd and Cuttler (2004) cites increased alcohol use and psychosocial stress brought on by an unpredictable future as the two main contributors to the decline in life expectancy in Russia and other countries of the former Soviet Union.

19. This figure in Morocco compares with roughly three-quarters of the same cohort in Indonesia and Turkey, and about 85 percent in Colombia and Philippines.

20. While making these comparisons between countries, the reader should bear in mind the discussion on the comparability of these data from box 2.5 and not interpret these differences literally.

21. The urban and rural figures for China (and India) have not been corrected for cost-of-living differences. Given that rural-urban price differentials have been increasing over time and are significant today (Chen and Ravallion 2004), the figures here exaggerate the differences in living standards between the rural and urban Chinese.

22. Kolm (1976) proposed the following class of absolute measures of inequality:

$$K = \frac{1}{\kappa} \ln \left[\frac{1}{n} \sum_{i=1}^{n} e^{\kappa(\mu - y_i)} \right],$$

where $\kappa > 0$ is a parameter that captures inequality aversion.

23. Atkinson and Brandolini (2004) discuss changes in international as well as global inequality. We use only their results on international inequality to make our point on the trend differences when one switches from a relative concept of inequality to an absolute one.

24. Such as Milanovic (2005).

25. See Firebaugh and Goesling (2004), Sala-i-Martin (2002).

26. Our analysis shows that we can estimate GE(0), that is, mean log deviation, from grouped data, especially if the number of groups is larger than 10, without any significant bias using our smoothing techniques.

27. The difficulties in assembling a database to calculate global inequality over such a long time period are detailed in Bourguignon and Morrisson (2002), 729–30.

28. Pritchett (1997), 14.

29. Bourguignon, Levin, and Rosenblatt (2004a).

30. Ravallion (2004a) as cited in Bourguignon, Levin, and Rosenblatt (2004a).

31. See, for example, Chen and Ravallion (2004).

32. Vietnam and Thailand practically eliminated $1 a day poverty during this period.

33. The projections for meeting some of the other Millennium Development Goals do not give one cause for greater optimism. East Asia and Europe and Central Asia are close to the target on primary education, while others are falling behind. A handful of countries are on track to attain the child mortality goal, mainly in Latin America and the Caribbean. Only 21 percent of the developing world's population is expected to achieve the maternal mortality goal. Halving the proportion of people without access to safe water and sanitation will require providing about 1.5 billion people with access to safe water and 2 billion with basic sanitation facilities between 2000 and 2015. At current rates of service expansion, only about one-fifth of countries are on track. See http://www.un.org/millenniumgoals/ for more details on the 8 goals, 18 targets, and nearly 50 indicators that comprise the Millennium Development Goals.

34. Deaton (2004). The rules of the game at the global level, and especially the process of setting those rules, will be discussed in great detail in chapter 10.

35. Voting shares in the soft-lending arm of the World Bank, the International Development Association, are similar: Part I countries hold 61 percent of the vote and Part II countries 39 percent. Developing countries are somewhat better represented in regional development banks, but developed countries hold large voting shares there too.

36. In all other cases, the delegates in charge of economic matters may be covering, in addition to the WTO, also UNCTAD, ITU, ILO and WIPO.

37. Each country belongs to one of the following four categories based on its GDP per capita in 2002: low income, lower-middle income, higher-middle income, and high income.

38. López (2000) as cited in Deaton (2004).

39. Pritchett (2001) and Pritchett (2004b).

40. Firebaugh and Goesling (2004).

41. Sala-i-Martin (2002).

42. Pritchett attributes this phrase to Gerschenkron (1962).

43. Pritchett (1997), 15.

44. As cited in Goesling and Firebaugh (2004).

45. As cited in Sala-i-Martin (2002).

46. Goesling and Firebaugh (2004).

Focus 2 on empowerment

1. Evans (2004).

2. See Petesch, Smulovitz, and Walton (2005) for the interactions between opportunity structure and the agency of subordinate groups.

3. Chaudhuri and Heller (2003).

4. Baiocchi, Chaudhuri, and Heller (2005).

5. Chaudhuri, Harilal, and Heller (2004).

6. The concepts of "terms of recognition" and "capacity to aspire" come from Appadurai (2004); "capacity to engage" is from Gibson and Woolcock (2005).

7. Rao and Walton (2004).

8. On the origins, structure and goals of KDP, see Guggenheim (forthcoming).

9. Gibson and Woolcock (2005).

10. Barron, Diprose, and Woolcock (2005).

Part II

1. In his second inaugural address, Roosevelt also suggested that avoiding deprivation in outcomes was a legitimate policy aim. As he put it, "The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little" (Washington, DC, January 20, 1937). There tends to be less agreement on the importance of inequality in specific outcome spaces. Writing about income inequality, Feldstein (1998) argues that increases in inequality caused by larger incomes at the very top warrant no policy attention, and represent "pure Pareto improvements," to which only "spiteful egalitarians" would object.

2. Michel Ferry, online consultation message, dated October 26, 2004, 10:56 a.m.

3. As chapter 1 also indicated, this is *not* equivalent to saying that implementing redistributions is free of tradeoffs, particularly in the short run, or that terrible inefficiencies cannot arise if redistributions are implemented in ways that pay no heed to incentives. We return to these difficult policy issues in chapters 7, 8, and 9.

Chapter 4

1. See Pinglé (2005).

2. Plato, *The Laws,* 745, quoted in Cowell (1995), 21.

3. The reason for this reputation is the combination of a utilitarian objective with a set of (rather restrictive) assumptions about individual utilities: (i) individual preferences can be represented by a utility function; (ii) cardinal utility levels are meaningful indicators of the individual's well-being; (iii) utilities can be compared across different people; (iv) the utility functions are increasing but concave (that is, increase at a declining rate) in incomes; and (v) all individuals have identical utility functions. If they all hold, then, for a fixed level of aggregate income, the greatest sum of utilities is achieved by an equal division of incomes across all individuals.

4. Sen (2000), 69.

5. For example, within German Courts, the standard of what is equitable is based on "the opinion of all those people who think in equitable and just terms"(Palandt 2004, article 242).

6. For example, within common law jurisdictions, key principles that guide the application of equity include the principles of "unconscionability," "undue influence," "duress," and "unjust enrichment." A transaction has been deemed unconscionable where "one party to a transaction is at a special disadvantage in dealing with the other party because illness, ignorance, inexperience, impaired faculties, financial need, or other circumstances affect his ability to conserve his own interests, and the other party unconscientiously takes advantage of the opportunity thus placed in his hands" (High Court of Australia, *Blomley v. Ryan* 1956, 99 CLR 362 at p. 415, per Kitto J.).

7. Aristotle, *The Nicomachean Ethics,* book 5, chapter 10, 350 BC.

8. Kritzer (2002), p. 495. For a more detailed discussion of the philosophical evolution of the concept, see Alland and Rials (2003).

9. The Chancellory Courts have their origin in the residual discretionary power of the King, generally exercised by the Chancellor,

to correct or overturn cases in which justice could not be obtained by a common law court.

10. In the common law tradition, equitable jurisdiction is also associated with a number of well-established principles, sometimes called the "maxims of equity." Examples of these include: *He who seeks equity must do equity*—that is, a claimant who seeks equitable relief must be prepared to act fairly toward the defendant (future conduct); *He who comes to equity must come with clean hands*—similar to the previous principle, but related to the claimant's past conduct; *Equity looks at intent rather than form*—equity is more concerned with substance than form.

11. Cadiet (2004), 425.

12. See Arnaud (1993) and Draï (1991).

13. Preamble to the Universal Declaration of Human Rights (1948).

14. Note also Article 1(3)—purposes of Charter—"promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language or religion" Article 2(1)—"sovereign equality of all members"—indicates balance between the principles of sovereignty and noninterference and of respect for human rights; Article 55—"universal respect for, and observance of human rights." Other references to human rights include Articles 13(b)(1), 62(2), and 68.

15. Vienna Declaration and Programme of Action Vienna Declaration (UNGA) (A/CONF. 157/23), July 12, 1993. This was issued by the U.N. World Conference on Human Rights, Vienna, Austria, June 14–25, 1993.

16. Rights identified in the UDHR include the right "without any discrimination to equal protection before the law" (Article 7), the right to "take part in the government of his country, directly or through freely chosen representatives" (Article 21), and the right to education (Article 26).

17. There exist several different characterizations of the "core human rights treaties." One is the "International Bill of Rights," which comprises the Universal Declaration on Human Rights, the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights. Another conceptualization is that there are six major human rights treaties: the ICCPR (1966), the ICESCR (1966), the Convention on the Elimination of All Forms of Racial Discrimination (ICERD) (1964), the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) (1989), the Convention Against Torture (CAT) (1984) and the Convention on the Rights of the Child (CRC) (1989). None of these characterizations should be taken as exhaustive or exclusive; there are several other extremely important human rights treaties beyond these, both within the U.N. system and outside it in regional systems. The OHCHR lists "seven core international human rights instruments": the six above, plus the International Convention on the Protection of the Rights of Migrant Workers and the Members of their Families (1990). In addition to this, mention should also be made of the Genocide Convention (1948).

18. Henrich and others (2004) report on Ultimatum Games played in 15 small-scale societies around the world. In an Indonesian experiment, Cameron (1999) found that high offers persisted in games played with (locally) very high monetary stakes.

19. See, for instance, Fehr and Schmidt (1999) on a theory of "inequity aversion," and Rabin (1993) on a model of behavior that takes other people's intentions directly into account.

20. Ibid.

21. Terry, Carey, and Callan (2001).

22. This is the question in the United States General Social Survey, which was fielded every year between 1972 and 1997. A similar question is included in the Euro-Barometer surveys, which are also used in the study.

23. Subjective well-being—or "happiness"—surveys have also been used to test the relative income hypothesis in a number of different settings. Following on original work by Easterlin (1974), which suggested that, despite sustained economic growth, people in some rich countries were not growing any happier, a number of recent studies have found that reported well-being rises with personal income, but declines with the income of other people in a person's reference group. This is usually interpreted to mean that well-being is driven at least in part by relative incomes, rather than purely by their absolute levels. See Graham and Felton (2005) for Latin America, Ravallion and Lokshin (2002) for the Russian Federation, and Luttmer (2004) for the United States. The relative income literature is of tangential interest for this report, because it provides additional backing for the idea that one's position in society in relation to others matters, both for individual behavior and for welfare.

24. See De Ferranti and others (2004) for an earlier discussion of this data.

25. The professions included skilled factory worker, doctor in private practice, chairman of a large national company, lawyer, shop assistant, federal cabinet minister, judge of the nation's highest court, owner/manager of a large factory, and unskilled worker. Respondents were also asked about their own income.

26. Countries in the ISSP sample include the following: Austria, Australia, Canada, France, Germany, Italy, Israel, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

27. This figure is an update, based on more recent data, of an original figure that appeared in Ravallion and Chen (1997).

28. See, once again, Ravallion and Chen (1997) and Bourguignon (2003).

29. Using a slightly different dataset, and a decomposition technique that also accounts for the differential sensitivity of different poverty measures to changes in mean incomes, Kraay (forthcoming) finds that the growth share in this variance is closer to 70 percent. In a sample of long spells only, that share rises to 94 percent.

30. Whereas the total growth elasticity of poverty reduction simply relates total change in poverty to the growth in mean incomes, without controlling for changes in the relative distribution and is therefore given by

$$\varepsilon_\mu^T = \frac{\Delta P}{P} \frac{\mu}{\Delta\mu},$$

the partial growth elasticity of poverty reduction controls for changes in inequality. That means that it is calculated for a given Lorenz curve:

$$\varepsilon_\mu^P = \left.\frac{\Delta P}{P}\frac{\mu}{\Delta\mu}\right|_{Lt} = \frac{P\left(L_t,\frac{\mu_{t+1}}{z}\right) - P\left(L_t,\frac{\mu_t}{z}\right)}{P\left(L_t,\frac{\mu_t}{z}\right)}\frac{\mu}{\Delta\mu}.$$

This definition, like the decomposition on which it is based, is path-dependent, and the elasticity would be somewhat different if it was calculated on the basis of the final-period Lorenz curve, rather than the initial one. In this report, we always use the initial period relative distribution when computing partial growth elasticities. No regression method is used, so no functional form of any kind is imposed on the relationship.

31. This finding is qualitatively consistent with alternative estimates of the relationship between partial and total growth elasticities, on the one hand, and income inequality, on the other. See Bourguignon (2003) and Ravallion (2005).

32. The other four combinations of poverty lines and measures were also computed, and the upward-sloping pattern is qualitatively robust.

33. See also Bourguignon, Ferreira, and Lustig (2004) for a detailed discussion of seven country studies.

34. In fact, World Bank (2005b) finds that, on average, the poorest 20 percent of the population in each of 14 countries in their study grow 0.7 percent for each 1 percentage point growth in mean incomes.

Chapter 5

1. See, for example, Fisman (2001a).

2. Even in a hypothetical world with perfectly functioning markets, there may still be an indirect influence, coming from the effect of wealth or income on savings decisions. It has been suggested that the poor are less inclined to save than the rich, and as a result, aggregate savings as a proportion of aggregate income may go up if the rich gain at the expense of the poor. This could affect investment decisions through the effect of the supply of savings on the price of capital. Inequality, in this Kaldorian view of the world (after Nicholas Kaldor, the Cambridge economist), would enhance growth, although it might yet be a Pyrrhic victory. Kaldor worried about the inevitability of crises under capitalism, and he saw faster growth accompanied by burgeoning inequality as a recipe for ongoing crises.

3. Note that such redistributions from wealthier to poorer people do not necessarily have to be to the poorest people in society, but rather to those with good growth opportunities.

4. Unless there are two different investment opportunities that have the exact same payoff, net of interest.

5. Dasgupta, Nayar, and Associates (1989).

6. See also Gill and Singh (1977) and Swaminathan (1991).

7. See Djankov and others (2003).

8. See Deaton (1997) for more details.

9. See Townsend (1995).

10. Fafchamps and Lund (2003) find that, in the Philippines, households are much better insured against some shocks than against others. In particular, they seem to be poorly insured against health risk, a finding corroborated by Gertler and Gruber (2002) in Indonesia.

11. See Banerjee (2000) for a discussion of the alternative views.

12. Although, there are instances of government scholarships for tertiary education in many countries that require beneficiaries to provide a specified number of years of service in government after graduation.

13. Blair, Judd, and Chapleau (2004). See also Loury (2002) for a wide-ranging study.

14. See the survey in Steele and Aronson (1995).

15. From McKenzie and Woodruff (2003), figure 1.

16. Olley and Pakes (1996).

17. The ICOR measures the increase in output predicted by a one-unit increase in capital stock. It is calculated by extrapolating from the past experience of the country and assumes that the next unit of capital will be used exactly as efficiently (or inefficiently) as the previous one. The inverse of the ICOR therefore gives an upper bound for the average marginal product for the economy—it is an upper bound because the calculation of the ICOR does not control for the effect of the increases in the other factors of production, which also contributes to the increase in output. The implicit assumption that the other factors of production are growing is probably reasonable for most developing countries, except perhaps in Africa.

18. Banerjee and Munshi (2004); Banerjee, Duflo, and Munshi (2003).

19. This is not because capital and talent happen to be substitutes. In these data, as is generally assumed, capital and ability appear to be complements.

20. From Goldstein and Udry (1999), figure 4.

21. From Goldstein and Udry (1999), 38.

22. Based on Berry and Cline (1979).

23. Some of the effects of lack of insurance may be quite subtle. Banerjee and Newman (1991) argue, for example, that the availability of insurance in one location (the village) and its unavailability in another (the city) may lead to inefficient migration decisions, because some individuals with high potential in the city may prefer to stay in the village to remain insured.

24. The fact that there is underinvestment on average, and not only a set of people with too many bullocks and a set of people with too few, is probably due to the fact that bullocks are a lumpy investment, and owning more than two is inefficient for production (there is no small adjustment possible at the margin).

25. Another piece of relevant evidence comes from the effects of titling nonagricultural land. Field (2003) shows evidence from a land-titling program in the slums of urban Peru that suggests that the lack of a clear title to the land where you have built your home reduces the ability of the household members to work outside. Field hypothesizes that this is because someone needs to be home to defend the untitled property from expropriation by others. But she does not find any evidence that land titling improves access to credit.

26. This number takes into account the fact that only 20 percent of the Indonesian population is iron deficient. The private returns of iron supplementation for someone who knew they were iron deficient—which they can find out using a simple finger prick—would be $200.

27. Kremer (1993).

28. Li and others (1994).

29. Banerjee and Duflo (2004b), 11.

30. See Bénabou (1996) for a survey.

31. Forbes (2000) also corrects for the bias introduced by introducing a lagged variable in a fixed-effect specification by using the Generalized Method of Moments (GMM) estimator developed by Arellano and Bond (1991).

32. Barro (2000) estimates a cross-sectional relationship between inequality and short-term growth and finds a negative relation in poor countries but a positive relation in rich ones.

33. Banerjee, Gertler, and Ghatak (2002).

Chapter 6

1. Engerman and Sokoloff (1997).

2. Acemoglu, Johnson, and Robinson (2001), 1387.

3. Klarén (2000), 44–48.

4. See Hemming (1970), 264 on Pizzaro and Melo (1996), 222 on Colombia.

5. Bakewell (1984), Cole (1985), Lockhart (1969) and Mörner (1973).

6. Lockhart and Schwartz (1983), 34.

7. Parry (1948).

8. Cardoso (1991), Mahoney (2001), and Lang (1975), 28.

9. An analogous story applies to the parts of the region suitable for plantation agriculture, especially sugar. Colonists in the Caribbean, present-day Brazil, and the southern United States took advantage of the international market in slaves and developed distinct but also highly coercive regimes.

10. See Crosby (1986), 143–44.

11. See Craven (1932) and Morgan (1975).

12. See Acemoglu, Johnson, and Robinson (2002), Acemoglu, Johnson, and Robinson (2004), and Rodrik, Subramanian, and Trebbi (2002).

13. In addition to arguments noted above, see the econometric analysis arguing that governance causes growth, but not the other way, in Kaufmann and Kraay (2002).

14. Haggard (1990) and Kang (2002).

15. Liddle (1991) and MacIntyre (2001b), 259.

16. Geertz (1963), Elson (2001), 194–201, 280–81; Rock (2003), 14.

17. World Bank (1993).

18. Bates (1981).

19. Bates (1981), 122.

20. Bates (1989).

21. Bowman (1991).

22. Fisman (2001b), MacIntyre (2001a), Stern (2003).

23. Lipset (1959).

24. This conjecture is substantiated by the standard account of the evolution of institutions in Britain, culminating in the Glorious Revolution of 1688 (North and Thomas 1973, North and Weingast 1989, and O'Brien 1993).

25. See Brenner (1976), Tawney (1941), Moore (1966), and Acemoglu, Johnson, and Robinson (2002b).

26. See Thompson (1963), Tilly (1995), and Tarrow (1998).

27. Acemoglu and Robinson (2000), Acemoglu and Robinson (2005).

28. Lindert (2003), Lindert (2004).

29. Other data on real wages and real rental rates on land supports this claim; see O'Rourke and Williamson (2002).

30. Li, Squire, and Zou (1998), Rodrik (1999b).

31. This section is based on Andersson and Gunnarsson (2005) and Jäntti and others (2005).

32. Wade (1990).

33. Andersson and Gunnarsson (2005), 4.

34. Chen and Ravallion (2004).

35. Montinola, Qian, and Weingast (1995), 51–52.

36. Qian (2003), 305.

37. In China revenues were collected at the local level and shared up with higher levels of government

Focus 4 on Indonesia

1. World Bank (1993).

2. Using data from van der Eng (1993a, 1993b, 2002), it is possible to construct an index of pro-poor growth from 1880 to 1990 (Timmer 2005). Using this index, the rates of pro-poor growth for each historical era were as follows: 1880–1905 = 0.05 percent per year; 1905–1925 = 4.57 percent per year; 1925–1950 = –2.57 percent per year; 1950–1965 = 2.37 percent per year; and 1965–1990 = 6.56 percent per year.

3. All Indonesian distributional data are subject to the usual caveats about the difficulty of obtaining adequate responses from both the very poor and the very rich. In particular, SUSENAS does not capture the extremely uneven accumulation of wealth or the conspicuous consumption of the ultra rich.

4. There is a "standard" economic model behind this story, in which the capital of individuals—formal and informal skills, land, location, and even accumulated savings—is deployed to earn incomes, with the possibilities determined by technology, transactions costs, and market prices. See Alatas and Bourguignon (2004).

5. Temple (2001). These institutions, for better and worse, lived well beyond the Suharto era.

6. Timmer (2005).

Chapter 7

1. The study finds that it is the quality of parent-child interactions, especially talking to the child, that matters the most (Hart and Risley 1995).

2. Pollitt, Watkins, and Husaini (1997), Grantham-McGregor and Ani (2001), Stoltzfus, Kvalsvig, and Chwaya (2001), Black (2003), Dickson and others (2000), Smith, Brooks-Gunn, and Klebanov (1997).

3. Shore (1997).

4. Rutter, Giller, and Hagell (2000), Karr-Morse and Wiley (1977).

5. Paxson and Schady (2005).

6. Pritchett (2004a).

7. Carneiro and Heckman (2003).

8. Three of the best-documented studies for the United States are on the Chicago Child-Parent Centers, a half-day program on a large scale in the Chicago public schools; the Abecedarian program, a full-day year-round education program in Chapel Hill, North Carolina, with followup to age 21; and the High/Scope Perry Preschool, a half-day program on a small scale in the Ypsilanti, Michigan, public schools with follow up to age 40. The last two are small randomized experiments. Studies on the Chicago program use statistical techniques to control for selection bias and other factors that might confound interpretation of results.

9. Slide 5 of presentation on Heckman and Masterov (2004), at http://www.ced.org/docs/presentation_heckman1.pdf.

10. Young (2002). In the United States, Currie (2000) notes that, while all the children in the North Carolina Abecedarian project were at risk of mental retardation, positive effects were twice as large for the most disadvantaged children among them. Currie and

Thomas (1999) find that gains in test scores associated with Head Start were greater for Hispanic children than for non-Hispanic whites.

11. Grantham-McGregor and others (1991).

12. Deutsch (1998), Attanasio and Vera-Hernandez (2004).

13. Paxson and Schady (2005).

14. Scott-McDonald (2004).

15. Doryan, Gautman, and Foege (2002).

16. Kirpal (2002).

17. Many conditional cash transfers in Latin America already have some of these features.

18. Currie and Thomas (1995) find that gains in vocabulary and reading test scores faded out among black Head Start children while they were still in elementary grades but not among whites even though initial gains in test scores were the same for both groups. Currie and Thomas (2000) attribute this to their finding that black children who attended Head Start go on to attend lower-quality schools than other black children but that the same is not true for whites.

19. King, Orazem, and Paterno (1999).

20. UNESCO (2005).

21. Thirty-two more countries have too little data to assess (Bruns, Mingat, and Rakotomalala 2003 and FTI Secretariat 2004).

22. See Wodon (2005) for Niger and Senegal—in Senegal, when the school is located less than 15 minutes away from home, the probability of enrollment for boys goes up by 30 percentage points as compared with having the school more than one hour away. Burney and Irfan (1995) found negligible impacts of proximity.

23. The study finds that children age two to four, in 1974, had an additional 0.12 to 0.19 years of education and 1.5 to 2.7 percent higher wages for each new school built per 1,000 children (Duflo 2001). Other studies that find positive impacts of expanding school infrastructure include Birdsall (1985) in urban Brazil, DeTray (1988) and Lillard and Willis (1994) in Malaysia, Lavy (1996) in Ghana, and Case and Deaton (1999) in South Africa.

24. Pritchett (2004a).

25. Kremer, Moulin, and Namunyu (2002).

26. In Brazil in 2001, the Bolsa Escola program was spending almost $700 million a year and reaching 8.6 million school children, one-third of all primary school children in Brazil. In Bangladesh, the Food for Education budget in 2000 was $77 million, benefiting 2.2 million children, 13 percent of total school enrollment (Morley and Coady 2003). In Mexico, according to government figures, by 2004, Opportunidades was spending approximately $2.3 billion annually, or about 1.5 percent of total expenditure, and reaching 5 million households—almost 20 percent of all families in Mexico.

27. Morley and Coady (2003) and Schultz (2004).

28. There are some countries in which gender disparities require attention to boys even for primary schooling (Mongolia) and quite a few for higher levels of attainment (Brazil, Philippines).

29. Herz and Sperling (2004).

30. World Bank (2004d).

31. Pritchett (2004a).

32. A score of more than one standard deviation below the OECD mean is considered poor performance.

33. See Hanushek (1986) and Hanushek (1996).

34. Wößmann (2000).

35. See Glewwe, Kremer, and Moulin (2002), Glewwe, Ilias, and Kremer (2003), Glewwe and others (2004), Kremer, Miguel, and Thornton (2004), Miguel and Kremer (2004).

36. It is also important to take account of household behavior in response to changes in school inputs. Das, Dercon, Habrayimana, and Krishnan (2004) find that household spending and (nonsalary) cash grants to schools are close substitutes with no impact on learning from anticipated increases in school funds. Unanticipated funds have significant learning impacts.

37. Hanushek and Wößman (2005).

38. Ladd (2002).

39. The analysis is not able to separate the effects of private schools from the effects of the incentives for greater effort generated by the voucher policy. The distinction is important because effort can be encouraged also by awarding scholarships to students attending public schools, as we saw with the Balshaki program. See Angrist and others (2002).

40. Chubb and Moe (1990).

41. See McEwan (2000) on Chile. Hoxby (2002) finds improvements from school choice from charter schools in Michigan and Arizona; Holmes, DeSimone, and Rupp (2003) find that competition from school choice in North Carolina improved test scores significantly. Cullen, Jacob, and Levitt (2000) and Cullen, Jacob, and Levitt (2003) found no impact from school choice in Chicago. See also Witte (2000). Hoxby (2000) finds significant productivity gains for a representative sample across the United States, while Rothstein (2005) uses the same data to find far more modest results.

42. McEwan and Carnoy (2000) and Hsieh and Urquiola (2003).

43. Lindert (2004).

44. In Brazil, a 1997 reform set a minimum floor on education spending in all regions, which led to an increase in primary school enrollments from 55 to 85 percent in only six years (World Bank 2005f).

45. See Grindle (2004) and Fiszbein (2005) for examples in Latin America.

46. World Bank (2003j).

47. Wößmann (2004) argues for giving decision-making authority to those with the most relevant information and the lowest prospects for personal gain. He finds that student performance improves with central control over the curriculum, budget, and exams; delegation of process and personnel decisions to the school; greater say for teachers in the selection of appropriate teaching methods; regular scrutiny of students' education performance; and parental interest in education content. Competition from private education institutions and the presence of teacher unions, on the other hand, have adverse effects.

48. See World Bank (2003j) and Pritchett (2004a).

49. World Bank (2003j) for South Africa; Duan (2005).

50. World Bank (2004k).

51. World Bank (2004k).

52. Thailand's Ministry of Public Health and World Bank (2005).

53. Rawlings (2004).

54. See Barber, Bertozzi, and Gertler (2005) for Mexico; Das and Hammer (2004) and Das and Hammer (2005) for India; Barber, Gertler, and Harimurti (2005) for Indonesia; and Leonard and Masatu (2005) for Tanzania.

55. World Bank (2003j).

56. Gertler and Barber (2004).

57. World Bank (2005f).

58. World Bank (2004h).

59. See World Bank (2001c) for Vietnam, World Bank (2005f) for Cambodia, and Lewis (2002) on ECA countries.

60. Schieber (2005).

61. Gertler and Gruber (2002) find that while Indonesian families were able to self-insure reasonably well the costs of minor illness (up to 70 percent of the income loss associated with these), they were able to insure only 38 percent of the income loss associated with illness that severely limits physical functioning.

62. Sekhri and Savedoff (2005).

63. Savedoff (2004).

64. Escobar (2005); Escobar and Panopoulou (2002); Castaneda (2003).

65. Uganda's use rates had dipped with the introduction of fees in the 1990s, and although Uganda's poor were formally exempt, they often paid as much as other users. Deininger and Mpuga (2004) estimate that the revenues lost to the health system from the elimination of user fees in 2001 were smaller than the value of benefits from the reduction in foregone earnings, thanks to a healthier population.

66. Thailand's Ministry of Public Health and World Bank (2005).

67. See Chaudhury, Hammer, and Murrugarra (2003) for Armenia, World Bank (2005f) for China, and Meesen and Van Damme (2004) for Cambodia.

68. Socialist Republic of Vietnam and World Bank (2005).

69. Preker and Carrin (2004), Atim (1999).

70. Ranson and others (2005).

71. World Bank (2004k), World Bank (2003j), Banerjee, Deaton, and Duflo (2004), Chaudhury and Hammer (2004) on Bangladesh.

72. World Bank (1997a).

73. The equity- and opportunity-enhancing role of social protection is the conceptual underpinning of the Bank's social protection sector strategy (World Bank 2001e, Holzmann and Jorgensen 2001). Other sources are World Bank (2003f), Devereux (2001), and Ravallion (2003).

74. Improved access to credit is reported for South Africa (Ardington and Lund 1995) and Brazil (Schwarzer and Querino 2002), where the electronic banking card issued by the program is often used as proof of creditworthiness. A significant share of rural pension beneficiaries in Brazil report using part of the pension to purchase seeds and agricultural tools (Delgado and Cardoso Jr. 2000); others report investing in improvements in their housing. Children and older people in beneficiary households had better health in South Africa (Case 2001) and enrollment rates of school-age children were higher among pension beneficiary households in both South Africa (Duflo 2003) and Brazil (de Carvalho Filho 2000).

75. Kanbur (2005).

76. Lindert (2004).

77. Esping-Andersen (1990) argues, for example, that the success of the welfare system in continental Europe is based on its universality.

78. Alesina and Glaeser (2004) suggest that the different choices depend on political and institutional factors, including the form of democracy, the degree of ethnic homogeneity, and societal beliefs about the causes of poverty.

79. This scheme covered about 10 percent of the unemployed labor force, so it was usefully supplemented by workfare (World Bank 2000b).

80. Coady, Grosh, and Hoddinott (2004).

81. See World Bank (2002a), World Bank (2003d), and World Bank (2003e).

82. Social workers assess 52 separate factors grouped in 7 dimensions (identification, health, education, family dynamics, housing, work, and income). See Chile's Ministry of Planning (2004); on Bangladesh, see Hashemi (2000).

83. On Argentina, see Jalan and Ravallion (1999); on the Maharashtra scheme, Ravallion (1991); on Bolivia, Newman, Jorgensen, and Pradhan (1992).

84. The analysis showed a decline in poverty of 11 percent in the PROGRESA communities and an increase in poverty in the control group.

85. See Bourguignon, Ferreira, and Leite (2004) on Brazil's Bolsa Escola; see Rawlings (2004) and Morley and Coady (2003) on Mexico's PROGRESA; and see World Bank (2005d) on Cambodia's lower secondary school program.

86. United Nations (2002).

87. See Holzmann and Hinz (2005) and World Bank (2001b).

88. Except for the implicit constraint imposed by a means-tested scheme (Barrientos 2005).

89. Case and Deaton (1998).

90. Barrientos (2005), Rawlings (2004), De Ferranti and others (2004).

91. See James (2000) for the general argument, van der Berg and Brendenkamp (2002) on South Africa, and Paes de Barros and de Carvalho (2004) on Brazil.

92. Lund (1999) and Atkinson (1995).

93. Hoogeveen and others (2004).

Chapter 8

1. See Haber (2001).

2. Hellman, Jones, and Kaufmann (2003).

3. The separation of powers between the executive, legislative, and judicial arms of government aims to combat the dangers of investing state power in one person or group, with each branch holding the others accountable through differing "checks and balances." This system also arguably maintains competition within political institutions. See Haber (2001).

4. Asian Development Bank (2003), 24–25; Garapon (2003), Russel and O'Brien (2001).

5. The *Constitution of the Federal Democratic Republic of Ethiopia* (1995).

6. Tien Dung (2003), 8.

7. See Buscaglia and Dakolias (1999).

8. Ringera and others (2003).

9. See Langseth and Stolpe (2001), Dakolias and Thatchuk (2000).

10. For East Asia, see Asian Development Bank (2003).

11. See www.tsj.gov.ve for an explanation of the judicial portal.

12. The important distinction here is between campaigns that impede judicial independence (targeting unpopular decisions) and those that serve as a check on judicial misbehavior (exposing judicial corruption). See Asian Development Bank (2003), 8–9.

13. See World Bank (2004g), World Bank (2004c), and Hammergreen (2004).

14. It is important to note that a vast array of practices, systems, and traditions have been defined as informal, traditional, or customary law, all existing within vastly differing contexts. The use of "informal" is used in contrast to "formal" state systems and is not meant to imply that such institutions are procedurally informal.

15. World Bank (2004j), 12.

16. Augustinus (2003).

17. See Centre for Housing Rights and Evictions (2004).

18. Mamdani (1996).

19. Fortman (1998).

20. See Buscaglia (1997) and Mattei (1998). See also Kranton and Swamy (1999) and Pistor and Wellons (1999).

21. The *sungusungu* have avoided cooption by the state, and their lack of knowledge of the law and people's rights can lead to abuse. See Mwaikusa (1995), 166–78, and Bukurura (1994).

22. Buscaglia (1997).

23. See Bush (1979) discussion on different African nations' attempts at dynamic integrations.

24. Interestingly, a hundred years later, the 1927 Black Administration Act, which recognized a dual system of official law, formed the basis for separating whites and Africans under apartheid. See Van Niekerk (2001).

25. See Bennett (1999) for a discussion of this issue.

26. More than two-thirds of the European Court of Human Rights' case load between 1999 and 2003 was about violations of the right to a fair trial, in particular, the excessive length of court proceedings.

27. Between 2002 and 2004, 14,992 mediation cases were handled. See Malik (2005).

28. Feierstein and Moreira (2005).

29. Das (2004).

30. See Human Rights Watch (2000).

31. See Greenwood and others (1998), Gottfredson (1998), Tremblay and Craig (1995), Waller, Welsh, and Sansfaçon (1999), Waller and Sansfaçon (2000), World Bank (2003a).

32. World Bank (2003a), Council for Scientific and Industrial Research (2000).

33. Graham and Bowling (1995), Shaw (2001).

34. Sloth-Nielsen and Gallinetti (2004), Bottoms (1990), Shaw (2001).

35. See Harber (1999), Shaw (2004).

36. For further details see the project Web site at http://www.bac.co.za/Web%20Content/Projects/Tiisa%20Thuto/Intro%20Template%20for%20Tiisa%20Thuto.htm.

37. Penal Reform International assisted in establishing community service orders as alternative sentencing in Zimbabwe, Kenya, Malawi, Uganda, Zambia, Burkina Faso, Congo, the Central African Republic, and Mozambique.

38. Morrison, Ellsberg, and Bott (2004).

39. Council for Scientific and Industrial Research (2000).

40. Mtani (2002).

41. See Binswanger, Deininger, and Feder (1995). In India, employment in agricultural wage labor (as opposed to self-employed cultivation) is strongly correlated with poverty (Kijima and Lanjouw 2004). Similarly, in Thailand, controlling for other factors, tenancy increases the risk of poverty by nearly 30 percent compared with being a landowner (World Bank 2001f).

42. Cardenas (2003), Conning and Robinson (2002).

43. Deininger (forthcoming).

44. Deininger and Olinto (2000) go further and suggest that asset inequality is a causal determinant of growth performance.

45. Intermediaries were essentially tax collectors who received land rights (in different forms, depending on the state) to "intermediate" the flow of resources between cultivators and the colonial administration.

46. Appu (1997), 196.

47. Banerjee, Gertler, and Ghatak (2002). In West Bengal, efforts in the late 1970s and 1980s to register sharecroppers and codify their rights were backed by the ruling left parties (Appu 1997).

48. Building on spontaneous transactions in which either the tenant or landlord buys out the other party's interest, the government is considering ways to facilitate such buyouts in a more systematic and equitable fashion, thereby allowing one party to obtain full ownership rights to the land (Nielsen and Hanstad 2004).

49. De Janvry and Sadoulet (2002).

50. Scott (1976), Gunning and others (2000), Deininger, Hoogeveen, and Kinsey (2004), and Kinsey and Binswansger (1993).

51. De Ferranti and others (2004).

52. See De Janvry and Sadoulet (1989), Jonakin (1996), Alston, Libecap, and Mueller (1999).

53. See, for instance, Feder (1988) and Jacoby, Li, and Rozelle (2002). Some studies report a doubling of investment and large gains in land values (30–80 percent) with more secure tenure (World Bank 2003i). To the extent that highly visible investments, such as trees or fences, may be a means to establish landownership rights, causality might run the other way (Brasselle, Gaspart, and Platteau 2002). A recent study from Ethiopia demonstrates that tenure insecurity indeed encourages investment in trees that have little impact on productivity, while higher levels of tenure security are unambiguously associated with productivity-enhancing investments (Deininger and others 2003).

54. De Ferranti and others (2004).

55. See Palmade (2005) on India. See Field (2003) on Peru.

56. Payne (2002), Durand-Lasserve (2003).

57. The three levels are as follows: (1) the right to somewhere to live (either on the occupied plot or an alternative should relocation be necessary); (2) a 30-year lease transferable in the event of death; and (3) a 199-year lease effectively conferring ownership rights upon survey and payment for the land.

58. World Bank (2003i).

59. Land regulation can also work against the urban poor. When formal land development parameters (such as minimum plot sizes, setbacks, and infrastructure servicing standards) are not benchmarked against affordability levels for the majority of the urban population, the poor are excluded from access to formal landownership. Bertaud and Malpezzi (2001), Payne and Majale (2004).

60. Gravois (2005)

61. Brasselle, Gaspart, and Platteau (2002).

62. World Bank (2003i)

63. Historically, distress sales have played a major role in the accumulation of land by large manorial estates in China (Shih 1992) and in early Japan (Takeoshi 1967) and by large landlord estates in Punjab (Hamid 1983). The abolition of communal tenure and the associated loss of mechanisms for diversifying risk are among the factors underlying the emergence of large estates in Central America (Brockett 1984).

64. World Bank (2003i).

65. World Bank (2003i).

66. For Sudan, see Kevane (1996); for Colombia, Deininger, Castagnini, and González (2004).

67. World Bank (2003i).

68. Long-term fixed rental contracts are the most efficient from an economic perspective because they are compatible with incentives for effort and investment but various imperfections in markets make these rare (chapter 5).

69. In most states, lack of political support for the legislation allowed landlords to subvert the intent of the laws. West Bengal is an exception—a tenant registration campaign had strong political support and succeeded in protecting tenants (Appu 1997).

70. De Janvry and Sadoulet (2002).

71. De Ferranti and others (2005).

72. World Bank (2003j).

73. See Van de Walle and Cratty (2004) on Vietnam. See Jalan and Ravallion (2002) on China.

74. See Jalan and Ravallion (2003). The findings also indicate that the health gains largely bypass children in poor families with poorly educated mothers.

75. See Malmberg Calvo (1994) on African countries; Ilahi and Grimard (2000) and Ilahi and Jafarey (1999) on Pakistan; World Bank (2001g) on electricity and gas; and Khandker, Lavy, and Filmer (1994) on Morocco.

76. Some 60 percent of the rural population in Africa lives in areas of good agricultural potential, but with poor market access, while only 23 percent live in areas of good agricultural potential and good market access. The remainder have both poor market access and poor agricultural potential (Byerlee and Kelley 2004).

77. Between 1970 and 1998, roads (in km) increased by 8.3 percent per year (World Bank 2005c).

78. World Bank (2005c).

79. De Ferranti and others (2004).

80. Economies from large production and delivery have diminished in some activities, especially telecommunications and power generation. And regulatory innovation made unbundling possible. Unbundling promoted competition by separating activities in which economies of scale are important (for example, electricity transmission and distribution) from activities in which it is less so (electricity generation). See World Bank (1994) and World Bank (2004l).

81. World Bank (2004f) and chapter 10.

82. According to the Latinobarómetro, the proportion of respondents who said they thought privatization had benefited their country dropped steadily from 46 percent in 1998 to 21 percent in 2003 (Lagos 2005).

83. Estache, Foster, and Wodon (2001).

84. Estache, Foster, and Wodon (2001).

85. Lifeline tariffs mean that rates increase after surpassing a certain consumption threshold (the level deemed necessary to meet basic household needs).

86. Wodon, Ajwad, and Siaens (2005) and Estache, Foster, and Wodon (2001).

87. Estache, Foster, and Wodon (2001).

88. Kariuki and Schwartz (2005).

89. Gulyani, Talukdar, and Kariuki (2005).

90. Estache (2003).

91. Irwin and Yamamoto (2004).

92. See Chisari, Estache, and Romero (1999) and Guasch (2003).

Focus 5 on taxation

1. Bird, Martínez-Vazquez, and Torgler (2004).

2. Bird, Martínez-Vazquez, and Torgler (2004).

3. Moore (2001); Davis, Ossowski, and Fedelino (2003).

4. Moore (2001).

5. Gupta and others (2003).

6. De Ferranti and others (2004).

7. Bird and Slack (2002).

8. Rudnik and Gordon (1996).

9. Boskin (1977).

10. Rajan and Zingales (2003).

11. Prud'Homme (1990).

12. Bird (1991).

Chapter 9

1. Smith (1776), 128.

2. See Tilly (1998) on opportunity hoarding by middle groups.

3. World Bank (2004b), Perotti and Volpin (2004).

4. See De Soto (2000), Glaeser, Sheinkman, and Shleifer (2003), and Haber, Noel, and Razo (2003).

5. See Morck, Wolfenzon, and Yeung (2004) and Claessens, Djankov, and Lang (2000).

6. Morck, Stangeland, and Yeung (2000), Morck and Yeung (2004).

7. On developed countries, see Rajan and Zingales (2003).

8. Halac and Schmukler (2003) and Perotti and Feijen (2005).

9. See Velasco (1988), Valdés-Prieto (1992), Haber and Kantor (2004), Claessens and Pohl (1994), and Perotti (2002). Also see box 9.2 on Russia.

10. Haggard, Lim, and Kim (2003), 87. See also Siegel (2003) for a discussion of the importance of political connectedness in the Republic of Korea.

11. Feijen and Perotti (2005); Claessens and Perotti (2005).

12. Bertrand, Schoar, and Thesmar (2004).

13. Braverman and Guasch (1986).

14. See discussion in Armendáriz de Aghion and Morduch (2005), Pulley (1989), and Meyer and Nagarajan (2000) for the poor repayment performance, and Burgess and Pande (2004) for positive impacts on the poor of social banking.

15. Honohan (2004).

16. The discussion of the Czech and Polish stock markets builds on Glaeser, Johnson, and Shleifer (2001).

17. Rajan and Zingales (2003), 159.

18. Guiso, Sapienza, and Zingales (2004).

19. Roland and Verdier (2000) and Claessens and Perotti (2005).

20. See, for example, Diamond (1981), Blanchard (2004), Bertola (2003), Agell (2002), among others.

21. For discussions of India's labor market regulation and its adverse effects, see Stern (2002), Hasan, Mitra, and Ramaswamy (2003), and Besley and Burgess (2004). For example, industrial sector legislation requires employers with more than 100 workers to seek prior approval of the government before dismissing workers. This has earned the country a 90 out of 100 on the World Bank's Doing Business in 2005 "difficulty in firing index" (World Bank (2005e).

22. See Kingdon, Sandefur, and Teal (2005). Strict enforcement of labor market regulations in South Africa—even for small firms—can also contribute to unemployment by inhibiting the development of informal sector firms.

23. In 1997–98, 83 percent of nonagricultural employment in India was informal (ILO 2002).

24. Kugler (2004).

25. Maloney (1999), Maloney and Nuñez Mendez (2004).

26. Chen, Vanek, and Carr (2004).

27. ILO (2002).

28. Besley and Burgess (2004).

29. The unemployment figure relies on the broad definition of the labor force (employed + searching and nonsearching unemployed). Using the strict labor force measure (employed + searching unemployed), the unemployment rate was 32 percent in 2003. Data is from the 2003 Labor Force Survey cited by Kingdon, Sandefur, and Teal (2005). "The ratio of non-agricultural informal sector employment to unemployment is 0.7 in South Africa but 4.7 in Sub-Saharan Africa, 7.0 in Latin America and ll.9 in Asia." (Kingdon, Sandefur, and Teal 2005).

30. Estimates suggest high levels of unemployment (20 to 30 percent for urban males), but there are measurement problems that bias the estimates upward.

31. Rodrik (1999b).

32. Galli and Kucera (2004).

33. The unions then played a critical role pushing the social and economic agenda toward more welfare-oriented policies (Fishman 1990, Boix 1998, and Boix 2005).

34. Some might argue that the Scandinavian systems are not easily replicable, on the grounds that they rely on extraordinary levels of trust and social capital. In other words, the political conditions necessary to obtain Scandinavian-type social democracy and "solidaristic bargaining" might be difficult to achieve in developing countries, despite their potential economic benefits. See Moene and Wallerstein (2002). But this was not always the case; high levels of trust emerged from widespread conflict in the mid-1930s.

35. Nickell (1997).

36. Boeri (2002); Blunch and Verner (2004); Bover, Bentolila, and Arellano (2002); Chaykowsky and Slotsve (2002); Panagides and Patrinos (1994).

37. Bertola, Blau, and Kahn (2001).

38. Kingdon, Sandefur, and Teal (2005).

39. Damiani (2003).

40. See Neumark, Cunningham, and Siga (forthcoming) for a discussion of how Brazil's minimum wage does not seem to have lifted family incomes at the lower points of the income distribution. In Colombia, Arango and Pachón (2004) find that "the minimum wage ends up being regressive, improving the living conditions of families in the middle and the upper part of the income distribution with net losses for those at the bottom."

41. See the ILO Web site (www.ilo.org) for a description of labor standards. As an example of the range of policy choices for the specific case of child labor, see ILO (2003) and Burra (1995).

42. See World Bank (2004a). Almost 80 percent of Cambodia's overseas buyers rated labor standards as one of their top priorities in sourcing decisions. They also stated that standards have had positive effects on accident rates, workplace productivity, product quality, turnover, and absenteeism.

43. López (2004).

44. There are two ways to measure outcomes: ex ante simulation using CGE (Computable General Equilibrium) analysis and ex post econometric analysis relying on household survey data. In the absence of such analysis, it is hard to predict the impact of trade reform on poverty or equity. A number of studies related to the themes of this section can be found in Hertel and Winters (2005).

45. Schiff and Valdés (1998), 30.

46. The CGE analysis generates price and wage changes that include the direct price effect of trade policy changes and "second-round" indirect effects on factor returns and nontraded goods prices. Certain dynamic gains from greater trade openness are not captured. For instance, trade could bring new technologies and innovations that boost long-term productivity (Ravallion 2004b).

47. Winters, McCulloch, and McKay (2004); Mundlak and Larson (1992); Lloyd and others (1999); McKay, Morrissey, and Vaillant (1997).

48. Minot and Goletti (1998).

49. See Bates (1981) and chapter 6 for Ghana, and CUTS (Consumer Unity and Trust Society) (2003) for Malawi.

50. McMillan, Rodrik, and Horn Welsh (2002).

51. See Hanson (2003). Other research attributes some of the benefits of trade reform in border states to higher levels of human and industrial capital and better communications and transportation infrastructure (Chiquiar 2005).

52. See Nicita (2004) on Mexico and Goetz (1992); International Fund for Agricultural Development (2001); Minot (1998); and Thomas and others (1999) on Indonesia.

53. Arulpragasam and others (2004), World Bank (2003c).

54. Annamalai and Rao (2003), India Today (2004).

55. Palmade (2005).

56. Carruthers, Bajpai, and Hummels (2004).

57. Wood (1997).

58. See Wood (1997), Sánchez-Páramo and Schady (2003), and De Ferranti and others (2004).

59. Topalova (2004).

60. World Bank (2004i), Cord and Wodon (2001).

61. McMillan, Rodrik, and Horn Welsh (2002).

62. For a brief survey of the different generations of models of crises, see Krugman (1999). For selected references see Aghion, Bacchetta, and Banerjee (2001), Chang and Velasco (2001), Krugman (1979), Obstfeld (1996), and Velasco (1996).

63. Acemoglu and others (2003).

64. On Bolivia, see Morales and Sachs (1998); on Israel, see Bruno (1993).

65. Blejer and Guerrero (1990).

66. Ferreira and Litchfield (2001).

67. See also Diwan (2002).

68. Rodrik (1999a).

69. Honohan and Klingebiel (2000).

70. Halac and Schmukler (2003).

71. See De Ferranti and others (2004), Lanjouw and Ravallion (2005).

72. Bruno (1993).

73. Perry (2003).

74. Robinson (2003); see focus 5 on taxation for discussion of social-fiscal contracts.

Focus 6 on regional inequality

1. Massey (2001).

2. Shepherd and others (2005); Massey (2001).

3. Psacharopoulos and Patrinos (1994); Hall and Patrinos (2005); Vakis (2003).

4. de Haan (2005).

5. Galiani and Schargrodsky (2002).

6. Manor (1999).

7. Fox (1990).

8. Ferreira (2004).

9. Funck and Pizzati (2003).

10. Shepherd and others (2005); Willanakuy (2004).

11. Ross (2005).

Chapter 10

1. Pogge (2004).

2. Chauvet and Collier (2004) estimated that the cost, to a country and its neighbors, of a country descending into the status of low-income country under stress (LICUS), as defined by the World Bank, is in present value terms approximately $80 billion, and that this cost was mostly borne by neighbors.

3. These conclusions are consistent with the findings of the World Commission on the Social Dimensions of Globalization (2004).

4. Goldin and others (forthcoming).

5. That is, 4 percent not 4 percentage points.

6. Stark and Bloom (1985); Cox, Eser, and Jimenez (1998).

7. The assumption that income after migration is higher than income forgone does not always hold. Adams finds that income levels would have been higher without migration in three Egyptian villages and would have been the same in four rural districts in Pakistan (Adams 1989, 1992). Barham and Boucher (1998) find essentially similar results for three neighborhoods in Nicaragua. On the potential impact on income inequality, Mendola (2004) finds that remittances from members of households with large land holdings in rural Bangladesh are correlated with adoption of new agricultural technologies, thus leading to higher productivity for already better-off households and a possible increase in inequality.

8. McKenzie and Rapoport (2004).

9. A number of studies by the World Bank Research Program on International Migration and by others document the positive impact of remittances. See Taylor (1992), Taylor and Wyatt (1996), and Yang (2004) for examples of easing of credit constraints. Adams (2005) finds that Guatemalan households receiving remit-

tances spend significantly more on housing, which has positive indirect effects on wages, business, and employment opportunities. Yang (2004) finds that Filipino households receiving higher remittances, because of positive exchange rate shocks, had greater child schooling, reduced child labor, more hours worked in self-employment, and greater entry into relatively capital-intensive enterprises.

10. Ehrenreich and Hochschild (2003).

11. On the phenomenon of brain waste, see Mattoo, Neagu, and Ozden (2005); on brain drain, see Faini (2003) and Schiff (2005).

12. Mode IV is one of four interrelated modes of supply of services across borders considered in the GATS.

13. As of May 2004, only 25 countries, mostly migrant-sending, had ratified the convention.

14. An interesting example of innovative partnerships to facilitate remittance flows is the New Alliance Task Force launched by the Federal Deposit Insurance Corporation (FDIC) and Mexican Consulate of Chicago, which aims to improve access to the U.S. banking system, provide financial education, and develop products with remittance features.

15. Smuggling and trafficking are a multibillion dollar industry increasingly run by criminal networks. The United Nations International Organization for Migration (2000) estimated that up to 2 million women and children are trafficked globally every year.

16. One option to address these losses is to lock development assistance to poor countries hurt by specific measures into the WTO agreements on these measures; see Ricupero (2005).

17. The current tariff structure could change through both bilateral and multilateral negotiations. For instance, if the Central American Free Trade Agreement is approved by the U.S. Congress, most textiles from countries such as Honduras and El Salvador would benefit from tariff-free entry into the United States, now the case for some items under existing unilateral preferences.

18. See for example Birdsall (2002).

19. Price-fixing by international cartels brings significant losses to developed- and developing-country consumers alike. Analysis of six high-profile cartels uncovered in the 1990s (vitamins, citric acid, bromine, seamless steel tubes, graphite electrodes, lysine) indicated that the estimated price increases ranged from 10 percent for stainless steel tubes to 45 percent for graphite electrodes, and that cumulative overcharges to developing countries over the life of the six cartels ranged from $3 billion to $7 billion, depending on the calculation method. See Connor (2001), OECD (2000), and World Bank (2003b).

20. Ronchi (2001) and Ronchi (2002).

21. Lewin, Giovannucci, and Varangis (2004).

22. For more information, see www.ethicaltrade.org and www.fairlabor.org.

23. Fung, O'Rourke, and Sabel (2001).

24. "Trade-Related Aspects of Intellectual Property Rights," Annex 1C of the Agreement Establishing the World Trade Organization.

25. Lanjouw and Jack (2004).

26. Sell (2003).

27. Fink and Reichenmuller (2005).

28. These are the agreements between the United States and Morocco (2004), Bahrain (2004), and the Dominican Republic-CAFTA (signed but not yet approved by the U.S. Congress).

29. Claessens and Underhill (2004).

30. World Bank (2005g) and UNCTAD (2004).

31. See Claessens, Underhill, and Zhang (2003) and Bhattacharya and Griffith-Jones (2004).

32. We discuss representation on the World Bank and IMF Boards below.

33. O'Sullivan and Christensen (2005).

34. Moore (2004).

35. McGillivray (2005).

36. Updating the results for 2001 led to similar results (Levin 2005).

37. The findings of Burnside and Dollar (2000) and Collier and Dollar (2001), Collier and Dollar (2002) are not robust to changes in functional form, the specification of the interaction terms, and sample selection; see Hansen and Tarp (2001), Easterly, Levine, and Roodman (2004), and Dalgaard, Hansen, and Tarp (2004). These studies also point to the importance of climate, among other factors.

38. Levin and Dollar (2005).

39. These figures include official development assistance (ODA) provided by countries that are members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). Non-DAC countries also provide ODA; the largest non-DAC donors are Saudi Arabia (providing $2.4 billion in 2003 out of a total of $3.4 billion), the Republic of Korea ($366 million), the United Arab Emirates ($188 million), and Kuwait ($133 million).

40. Eighteen countries qualify immediately, and as many as another 20 could qualify over time. See the G-8 Finance Ministers' Conclusions on Development, London, June 10–11, 2005 (G-8 Finance Ministers, 2005) at http://www.hm-treasury.gov.uk/otherhmtsites/g7/news/conclusions_on_development_110605.cfm. The G8 Finance Ministers' agreement was confirmed at the July 2005 G8 Gleneagles Summit.

41. See the G-24 Communique, available at http://web.worldbank.org/WBSITE/EXTERNAL/DEVCOMMEXT/0,,menuPK:60001663~pagePK:64001141~piPK:64034162~theSitePK:277473,00.html.

Focus 7 on drug access

1. See Lanjouw and MacLeod (2005) and World Health Organization (2004).

2. See Kremer and Glennester (2004) and Barder (2004).

3. See Masters (2005).

4. See an interesting article by Maurer, Sali, and Rai (2004) on how an open-source approach could work.

5. World Health Organization (2004).

6. Based on data from IMS HEALTH Global Services at http://www.ims-global.com.

7. This proposal is detailed in Lanjouw (2002).

8. For legal details see Lanjouw (2002).

Epilogue

1. This is evident from the very title of Bauer (1971).

2. World Bank (1980).

3. World Bank (1990).

4. World Bank (1997c).

5. World Bank (2002b).

6. World Bank (2001h).

7. See Stern, Dethier, and Rogers (2005) for a detailed treatment of this synthesis.

8. World Bank (2005h).

9. World Bank (2003j).