Epilogue

This report has argued that equity has a central place in the interpretation of development experience and in the design of development policy—and that this place has been inadequately understood and undervalued in much current thinking. We do not propose, however, yet another new framework for development. Instead, recognizing the importance of equity (that is, equality of opportunity and the avoidance of absolute deprivation) implies the need to integrate and extend existing approaches. In this epilogue, we seek to place the analysis and messages of the report in the context of some of the major contemporary strands of thinking and action in development.

Four broad strands of thinking have been at the core of development discourse and practice over the last three decades or so: the central role of markets as resource allocation mechanisms, the importance of human development, the role of institutions, and a focus on empowerment.

The first strand emphasizes the superiority of markets over central planning as broad mechanisms to allocate resources and determine the evolution of economic activity. This has long been understood in economics, but there was a time when it was a minority view among development economists.[1] The situation had definitely changed by the 1980s, as first India and then China moved away from planning, and the importance of incentives in determining individual behavior (as consumers, producers, and regulators) became more widely understood. The rapid and sustained growth that followed in those two countries underlined the point. In the 1990s, the economic transition away from planning in the formerly communist states of Eastern Europe and Central Asia dispelled any serious view that development was possible without markets and the private sector.

Although the resulting "Washington Consensus" is sometimes interpreted as anti-state, this is not the main message that survives after more measured consideration. Instead, just as events in the 1990s confirmed that markets were essential for development, they also showed that good governments are essential for well-functioning markets. Markets operate within a framework determined by institutions, and they work only as well as those institutions do. They work best, therefore, when a capable state maintains order within the rule of law, provides effective regulation, macroeconomic stability and other public goods, and corrects other market failures.

The second strand sees human development as central to the development process, through the expansion of the skills, health, and capacity of all people to engage in social and economic activities and to manage the risks they face. Although the World Development Report 1980 was on Human Development,[2] U.N. agencies—notably the UNDP in their series of Human Development Reports (United Nations 2003)—later took the lead in putting these concerns at the center of the development agenda. In this, they have been followed (rightly) by the whole development community.

For the World Bank, the 1990 World Development Report on Poverty[3] marked the beginning of a multiyear process of making poverty reduction the overarching objective of the institution, building on these first two strands of development thought. The 1990 Report argued that poverty reduction required a two-part strategy—employment creation through market-based growth; and expansion of

human capital, especially through broad-based provisioning of social services.

During the 1990s, the third and fourth strands of thought rose to prominence. The third strand emphasized the role of "institutions" in development, building both on trends in academic thought and on development practice across many organizations. It reflected the acknowledgment that markets, however important, do not work in a vacuum. They need rules and the institutional enforcement of those rules. The emphasis on institutions took a variety of forms: a focus on the costs of corruption; a broader concern with governance; support for judicial reform; and a greater practical understanding of the need for well-designed, accountable, and effective public regulation of privatized monopolies.

The fourth strand sought the empowerment of the people for whom development was supposedly taking place. If the central goal of development is poverty reduction, the poor should have a great deal of voice over its directions. If development needs markets, and markets need institutions, it should clearly matter how those institutions are governed. If power helps determine the outcomes in market and government processes alike, the distribution of that power over the population must be important for development. In practical terms, the emphasis on empowerment has sought greater participation of the poor in projects affecting them, a greater preoccupation with the political economy of support for reforms, and explorations of the role of culture in development.

Several World Development Reports have sought to integrate the third and fourth strands of thought: the 1997 Report on the "State in a Changing World,"[4] the 2002 Report on "Building Institutions for Markets,"[5] and, emblematically, the millennial 2000/01 Report on "Attacking Poverty."[6] The 2001 Report argued that poverty reduction required an expansion in the opportunities of the poor (notably through market-oriented growth), the empowerment of the poor, and measures that provide security for the poor. At the World Bank, this synthesis was crystallized in a Strategic Framework for development, which consisted of two pillars: building a good climate for investment and empowering the poor.[7]

The first pillar combined the strands of thinking on the primacy of markets and on the centrality of institutions. It argued that only by having governance institutions that were at once effective and accountable could markets generate the best possible results for investment and growth. This theme was explored in the 2005 Report, "A Better Investment Climate for Everyone."[8]

The second pillar was also a merger of sorts: in seeking the empowerment of poor people—who should be seen as the driving subjects, not as passive objects of development—it combined thinking on human development, institutions, and empowerment. The 2004 Report, "Making Services Work for Poor People," explored these themes in the delivery of basic services.[9]

Although the various elements of thinking and policy are complementary—and indeed have been considered elements of a "comprehensive" or "holistic" development process—the narratives associated with the different strands have often suffered, in practice, from two important limitations. One is a tendency to compartmentalize poverty. The second is to treat actions in the various realms as separate. There is a tendency to assign market-related and macro-policies to macroeconomic managers and trade ministries, as though the "investment climate" concerned only rich people or as though the poor stood to benefit only indirectly from the trickle-down effects of the investments by the rich today.

Conversely, it sometimes seems as though empowerment would have no impact on the quality of institutions, on the investment opportunities of the poor, or on the economy's growth process. According to this view, empowerment should be the preserve of well-meaning NGOs and social development folk, of little import for economic performance.

Such a separation of the two pillars—for the investment climate and for empowerment—is profoundly misguided. The analysis in this report suggests that the root causes of poverty are to be found in the combined deprivations of power and investment opportunities. Lack of incomes, lack of

access to services, lack of assets—these deprivations go together with lack of voice, lack of power, lack of status. Public action *could* enhance the investment capabilities of those who have limited opportunities by investing in their human capital and in the infrastructure they use and by ensuring fairness and security in the markets in which they transact. And if public action fails to do that, it is because it somehow has been decided otherwise. In that case, the government will invest in expensive schools or universities, rather than in those used by the poor, for example. It will not enforce tax collection, rather than build rural roads. It will allow banks to retain a degree of market power and lend to the friends of the government, rather than allow for entry and promote competition that forces intermediaries to seek the greatest returns on capital. Observed policies that fail to address inefficient inequities are the result of political choices, implicitly or explicitly.

Such failures in public action, which arise from and perpetuate inequity, are also inimical to prosperity. Those who have no opportunities cannot contribute to the development of their countries. Their potential talents are wasted, and capital, land, and other resources are used in inferior ways. Unequal control over resources reinforces the unequal concentration of power, and this is reflected in worse governance institutions: public service delivery agencies are not pushed to become more accountable. If all the power brought to bear on regulators is that of the friends of the regulated, the quality of regulatory agencies is not likely to improve much. Police forces and judicial systems will not treat everyone the same way. And so on. These institutional failures only add to the negative effects of inequity on development.

Government policies are what they are—from Mali to Chile—because someone is making them. No group is power*less,* unless some other group is power*ful.* If an inequitable distribution of opportunities means that the investment climate for large groups is poor, this is intimately linked to the lack of power in those groups to affect the decision-making processes that could lead to changes in that distribution over time. And if power is imbalanced, it is because wealth and economic opportunities are uneven. Inequality traps are vicious circles, with economic and political inequalities mutually reinforcing one another.

This report has argued that policy and institutional reforms can help break these inequality traps, and turn the vicious circles into a virtuous process of greater equality in economic opportunities reinforcing greater political equality, and vice versa. Reforms can do this in many ways, which are closely related to the four strands of thinking discussed above. Interventions that build greater human capacities for those with the most limited opportunities (generally the poor) will prepare them to be more economically productive and more politically effective. Processes that redistribute access to land, or to infrastructure services, or indeed to justice, can add both to empowerment and to the investment opportunities of the poor. And promoting fairness in markets is all about improvements in the quality of institutions that support and complement markets in ways that broaden access and ensure equitable rules.

This is consistent with the twin pillars of a better investment climate and greater empowerment for the poor. It makes it clear that—for most people in the developing world, and certainly for the poor—it is not possible to have one without the other. A good investment climate is about real economic opportunities. Equity is about leveling the playing field so that opportunities are available on the basis of talent and efforts, rather than on the basis of gender, race, family background, or other predetermined circumstances. A level economic playing field is not sustainable without a level political playing field, and vice versa. If we want a better investment climate for everyone, we want empowerment. The combination of both implies equity.

These issues apply with equal force at the global level. The extraordinary inequalities in opportunity faced by individuals born in different countries reflect different political and economic histories across nations. While domestic policy is undoubtedly fundamental, global interactions help shape

the context for national economic and social advance. The Monterrey Consensus explicitly emphasizes the need for a compact between rich and poor societies if the Millennium Development Goals are to be achieved. It recognizes the role of action by rich countries, especially in the areas of aid and trade. For aid, this is reflected in the quest to change the donor-recipient relationship from one of giving to one of partnership, with developing countries clearly in the lead in designing their policies and institutions.

This report underlines the importance of that compact and a more equal international partnership. But it also highlights inequalities in the processes forming the rules of the game in the international playing field. Inequalities in economic and political power in the global arena influence the design of rules in ways that often restrict, rather than expand, the opportunities of poorer countries—and, even more, of poorer groups within these countries. Just as in the domestic context, therefore, equity and efficiency in the international arena are more likely to be attained by reforms that enhance the power and broaden the economic access of the countries where the world's poor live.