



Citizens' Network On Essential Services
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**Ideology of Redistribution & Poverty Reduction:
The 2006 report by the World Bank's Latin America Department): "Poverty Reduction & Growth:
Virtuous and Vicious Circles"***

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Part I ("Heresy at the World Bank?") asks whether the above-cited report represents a heretically progressive break with the past, as proposed by some.

Part II ("Neoliberalism vs Growth and Poverty Reduction") debunks messages of the report.

Part III ("The Graveyard of Ideas") reviews the colorful history of the concept of "redistribution."

Part IV ("Where the Rubber Hits the Road") is a reminder that what the Bank utters in its policy reports may not bear much resemblance to the operations that it finances.

*This article uses the term "2006 PRG report" to refer to the Latin America Department's volume "Poverty Reduction & Growth: Virtuous and Vicious Circles." The article also uses the term "2006 WDR" to refer to the World Bank's 2006 "World Development Report" (WDR) entitled "Equity and Development."

I. Heresy at the World Bank?

Writing for the "Washington Post" on 17 February 2006, Marcela Sanchez (in "Breaking Ranks at the World Bank") stated that, in recommending that the state to take on more economic responsibility to deal with poverty and inequality, the World Bank's new report -- "Poverty Reduction & Growth: Virtuous and Vicious Circles" -- "is almost heretical." The other two recommendations of the report, prepared by the World Bank's Latin America and the Caribbean (LAC) Division are that private sector growth is not a panacea for the poor and that inequality must be targeted directly.

Indeed, the report even uses the "R" word -- REDISTRIBUTION. The report states, "Converting the state into an agent that promotes equality of opportunities and practices efficient REDISTRIBUTION is, perhaps, the most critical challenge Latin America faces in implementing better policies that simultaneously stimulate growth and reduce inequality and poverty," the report says.

Utterance of the word "redistribution" sends shivers down the spine of the U.S. conservative movement. In the February 19, 2006 "Conservative Voice," T.E. Brewton writes (in "The World Bank Gets (Socialist) Religion") that "World Bank policy theorists have just 'discovered' the universally disastrous idea of socialistic income redistribution."

Indeed, the history of the redistribution concept has been wild and crazy. Part III of this message recalls how the World Bank's Chief Economist in 1974 began promoting redistribution and how the Director of the World Bank's "World Development Report 2000/01," Ravi Kanbur had a show-down with the then-U.S. Treasury Secretary Larry Summers over the concept and, of course, lost. To some extent, the publications of the UN Development Program (UNDP), primarily its "Human Development Reports" (HDRs) have flown under the radar of the U.S. Treasury and consistently presented the need to address

inequality to meet the MDGs. However, there are strong moves within the U.N. to stop production of these reports.

The 2006 PRG report plays the institution's old trick of rediscovering history. Sanchez writes that the institution announces in the report that growth is not a panacea. However, with the exception of the decades of the 1950s and 1980s, the Bank never contended that growth could be the sole engine of poverty reduction. [After the 1960 creation of the Bank's International Development Association (IDA) to address growth and poverty in developing countries and especially during the McNamara Presidency (1968-1981), poverty and even redistribution issues were prominent in the rhetoric of the institution (certainly not the operational practices).

When the Bank's pronounces, as it does in the 2006 PRG report, that the state must do more to target and reduce poverty and inequality, is this heresy? There are three answers to that question.

A. Yes. It is heresy! The Bank-financed neoliberal policies of the past 25 years have plunged the region into poverty and sharply exacerbated inequality to the point where the richest one-tenth of the population in the region receives 48 percent of total income, while the poorest tenth earns only 1.6 percent. Thus, the Bank is heretical to "discover" the seriousness of the plight of Latin America after so many years. But the real heresy is that the institution does not address its own complicity in the situation. This is discussed in Part II.

B. No. Business is business. As political economist Tim Kessler says, "Sanchez's remark about the "heretical" Bank position that the state must do more totally misses the mark. The Bank has been arguing this for years, just saying that the state needs to do certain things very well and leave production to private markets. Also, Bank has long supported, at least rhetorically, greater spending on health and education, and it invented the Social Protection dept to deal directly with losers from structural adjustment. The PRG report does not reject any basic plank of the Washington Consensus, but rather that it suggests that these market reforms need to be accompanied by more safety nets. It's actually good for Bank business, because they can do more adjustment loans than ever-- and larger loans -- with that kind of insight.

C. The Bank is just fighting for U.S./Western hegemony and institutional survival.

U.S. Hegemony. The World Bank's shareholders are realizing that the neoliberal project will never succeed unless governments do a better job of cushioning the impact of adjustment on the poor. As Mark Weisbrot (Center for Economic and Policy and Research) discusses in his syndicated column, Latin American governments are turning against the U.S. and neoliberalism. His 15 October 2005 "Miami Herald" column (written before indigenous leader Evo Morales won the Bolivian election) states, "The resulting long-term failure [of reforms] has produced a popular and electoral backlash against the reforms, which are often labeled "neoliberalism" in Latin America. In the last seven years, left-populist candidates running against "neoliberal" policies have taken the presidency in Argentina, Brazil, Ecuador, Uruguay, and Venezuela. Bolivia is possibly next, and in México, former México City mayor Andres Manuel Lopez Obrador of the left opposition Democratic Revolutionary Party, who has denounced "twenty-five years of economic failure" in México is in the lead for next year's presidential election."
[http://www.cepr.net/columns/weisbrot/2005_10_07.htm]

Institutional survival. Survival is every institution's first imperative and the World Bank's survival is at risk. The IBRD actually has low or negative net flows, (e.g., loan disbursements minus repayments are low or negative). Increasingly, middle-income countries shun World Bank money.

Our last list serve message reviewed the proposal by Jessica Einhorn, former Managing Director of the World Bank (writing in "Foreign Affairs," January/February 2006) that the World Bank's window for

middle-income countries, the International Bank for Reconstruction and Development (IBRD), "seems to be a dying institution." She proposes ways that the institution might be phased out.

That message also reviewed the proposals by Nancy Birdsall and Kernal Dervis (writing for the Center for Global Development) for a new facility at the IMF or World Bank that might better serve middle-income countries, or more specifically, highly indebted emerging market countries, by reducing their debt without sacrificing their growth or social development.

In other words, the 2006 PRG report might herald the coming of an era in which cushioning the blows of structural adjustment (or "development policy loans") becomes more central to the institution's business.

II. Neoliberalism vs Growth and Poverty Reduction

A. Growth and Inequality

Growth. The 2006 PRG report is based on an absurd proposition: that neoliberal policies are associated with faster growth whereas the results of the policies in Latin America display abject failure. Indeed, the main author (Guillermo Perry) states that the reason for the report relates to the twin disappointments of Latin America and the Caribbean, which are relatively low, unstable growth and high inequality -- as well as high levels of poverty. (Twenty-five percent of the population lives on less than \$2 per day.) These patterns have persisted and worsened over the last 25 years as countries in the region have implemented the neoliberal policy prescriptions of the IMF and World Bank, financial and trade liberalization, privatization, and budget austerity (partly, in order to service their debts).

The Bank would retort that Latin American governments made big mistakes in implementing neoliberal policies, however, for a more objective assessment, see "The Scorecard on Development: 25 Years of Diminished Progress," by Mark Weisbrot, Dean Baker and David Rosnick (September 2005) [http://www.cepr.net/publications/development_2005_09.pdf] In his syndicated column,

Weisbrot writes, "The economic landscape of Latin America is littered with the ruins of these and other policy mistakes that were supported, and sometimes implemented, under considerable economic and political pressure from Washington and the institutions that it controls: the IMF, World Bank and Inter-American Development Bank.... Governments also abandoned most of the policies that have contributed to the development of nearly every country that has reached high income levels today -- for example certain industrial and development strategies -- in favor of "market-driven" development." [http://www.cepr.net/columns/weisbrot/2006_01_21.htm]

The PRG report's message seems to be that "Neoliberalism is Dead; Long Live Neoliberalism."

Inequality. The 2006 PRG report acknowledges that neoliberal policies "also seem to be associated with higher levels of income inequality." (p. 85) Then, it makes another absurd proposition: that many of these negative effects are only short-term in nature and outweighed by positive effects in the long term. However, in Latin America, the growth in levels of inequality has not been short-term in nature. At present, the richest one-tenth of the population in the region receives 48 percent of total income, while the poorest tenth earns only 1.6 percent.

Also, The Bank focuses on income inequality rather than asset inequality, which is a primary cause of poverty and inequality. The overwhelming majority of the world's poor people are subsistence farmers. Yet, the Bank's market-assisted land reform program has been a failure in most places. (See Joao Marcio Mendes Pereira, "From panacea to crisis: grounds, objectives and results of the World Bank's market-assisted land reform in South Africa, Colombia, Guatemala and Brazil," October 2005.)

Indeed, the report cites research by Lederman, Maloney and Serven (2005) with respect to NAFTA's adverse impacts on income distribution. Specifically, found that, in Mexico, "workers with higher skills and education seem to have benefited more than workers with lower skills. Large firms also seem to have benefited more than small and medium-size ones, probably because of the greater availability of credit to larger firms after the financial crisis of 1994. Similarly, commercial agricultural producers with access to irrigated land seem to have experienced significant productivity gains, whereas smaller producers experienced no effect. Finally, states with higher initial levels of education, better infrastructure and better local institutions accelerated their income convergence toward the US, but there was little or no movement toward convergence among Mexico's poorer southern states." (87)

B. Good vs Bad Public Spending. The PRG report states that due to the adverse short-term impact of neoliberal policies on equality, nations should complement the policies with improvements in education and infrastructure as well as compensation measures. Specifically, the report states that "public spending on health, primary education and cash transfer programs benefit people in the lower part of the distribution more than people in the higher part. Other types of social spending, such as on tertiary education, pensions, unemployment insurance, and electricity subsidies, are highly regressive...Substantial gains in reducing inequality could be achieved by simply reallocating resources within a given budget envelope. The Bank has been promoting its so-called "right" social policies in Latin America for decades with devastating results. Moreover, many prosperous industrialized countries with low levels of inequality implement precisely those policies that the Bank deems "highly regressive."

C. Trade-Offs. The PRG report states: "...the previous discussion suggests that a sensible development strategy should focus both on the quantity of growth (that is, on the achievement of a high growth rate) and on the quality of growth (that is, on who benefits from that growth." But, "how much emphasis should policy-makers place on achieving a high growth rate and how much on achieving a balanced pattern of growth? What is more advisable from a poverty perspective: a high growth rate that has an associated increase in inequality or a lower growth rate that maintains inequality at a constant level? Are there any conditions under which policy-makers can accept a trade-off between growth and a deterioration in the distribution of income?" (p. 58)

It concludes, "We find the answers to these questions depend on the initial conditions in the individual country and on its concept of poverty. In countries with low per capita income levels and relatively equal distribution, growth in mean income will be relatively more effective in reducing poverty than changes in the income distribution. In contrast, richer and more unequal countries will have to carefully balance the growth and income distribution objectives, because in those cases even small increases in inequality may have a dramatic negative impact on poverty." (p. 71-73)

Once again, the Bank pronounces the obvious. In Latin America, almost all countries are relatively "richer" and unequal. There is also the third category of countries, the poor countries with high levels of inequality, which describes Africa.

D. Exonerating the Colonial Powers. The PRG report states that the dramatic inequality in the region is due more to the conditions found by the colonial powers than the actions by the colonial powers, saying that "...both the initial inequality and the institutions that appeared were shaped more by the factor endowments found by the colonial powers, that favored the establishment of large plantations and extractive activities relying on forced labor rather than by the nature of the colonial powers themselves." (p. 46) "The Creole elite who had benefited from those disparities during colonial times were able to quickly gain effective control of the independent countries and determine the general structure of the institutions in ways that favored their interest." (p. 53) The Bank presents these perspectives as though

the genesis of poverty and inequality was not influenced by Western military and economic hegemony in the region.

III. The Graveyard of Ideas

In 1974, then-Chief Economist of the World Bank, Hollis Chenery, published "Redistribution and Growth," which tried to shift the institution's focus from a single-minded emphasis on growth to an effort to see that the benefits of growth are distributed more equitably throughout a society.

About twenty-five years later, Ravi Kanbur, Director of the 2000/2001 "World Development Report (WDR): Attacking Poverty" (the World Bank's annual flagship report) quit his job when the U.S. Treasury opposed the idea that redistribution, or greater asset equality, was a necessary basis for poverty-reducing growth.

Then-Secretary of the Treasury, Larry Summers, wanted the report to focus principally on economic growth, not redistribution. Indeed, the decade of the 1990s was characterized by increased concentration of assets in the hands of the privileged few. The growth in levels of inequality was skyrocketing (and continues to) within and between countries. As a message, the need for redistribution died.(1)

In 2006, the World Bank's WDR "Equity and Development" was released essentially embracing part of Chenery's message thirty-two years later. The main messages of the WDR are that equity, defined in terms of equality of opportunities, is complementary to the pursuit of long-term prosperity, and that a central aim of public action should be to level the economic and political playing fields, both domestically and internationally.

As Sanjay Reddy eloquently states in his review of the WDR (<http://www.g24.org/WDR-2006.pdf>), the report "fails to recognize that the policies recommended by the Bretton Woods Institutions may have been among the major reasons for the increases in relative inequality observed...in recent years." He continues, stating "...Labor market deregulation...is once again held up as being in general a highly desirable policy and 'overly generous unemployment benefit and social assistance systems, which discourage job search.'"

However, in terms of acknowledging that the Millennium Development Goals (MDGs) cannot be met without tackling inequality, the report begins to catch up with the UN "Human Development Reports" (HDRs) and the position of the World Bank in 1974.

In terms of the research basis of the 2006 WDR and the 2006 PRG reports, the Bank continues to cite the work of its economists David Dollar and Aart Kraay, who have reliably produced findings that echo the U.S. Treasury's line about "openness." [Our 8 December 2005 list serve message debunks the intellectually shabby work of Dollar and Kraay.] Increasingly, the Bank gives credence to the important work of another Bank economist, Branco Milanovic, as well as Lyn Squire, who take important steps toward quantifying the negative impacts of trade reforms on the distribution of income.

IV. Where the Rubber Hits the Road

In the Bank's November 2005 "Strategic Stock Taking" exercise, it reaffirmed the "Twin Pillars" of its Medium-Term Strategy:

*Investing in and empowering people...by creating opportunities for people to escape from poverty and improve their living standards; and

*Promoting a favorable investment climate...through improved infrastructure and private sector development, a climate in which firms and entrepreneurs can invest productively and, thereby, contribute to growth and poverty reduction.

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The Bank makes its hallmark error of operating as though a favorable investment climate is the key to progress. In so doing, it fails to differentiate between incentives for domestic vs foreign entrepreneurs/corporations. The term "income redistribution" does not appear (much less the term "asset redistribution")!

In the future, the Bank's strategy will involve a strong emphasis on (1) global and regional programs and (2) subnational programs at the level of state and local governments. By giving lesser emphasis to national programs, the Bank increasingly bypasses the democratic parliamentary (congressional) machinery and, thereby, further marginalizes the voices of citizens. As one Latin American NGO stated, the way to conjugate the verb "to participate" is as follows: "I participate, you participate, he/she/it participates, we participate, they decide."

Footnote:

(1) 1990 WDR. A decade previously the Bank's 1990 attempt to launch a poverty reduction strategy to combat poverty based on labor-intensive growth (as well as human capital development (i.e. health and education), and safety nets) was nipped in the bud. The message calling for the promotion of labor-intensive growth died.