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Freeing the World of Poverty

It was inevitable, given the conceptual and empirical content of development economics in the mid 1970s, that the early *World Development Report*s (*WDR*s) painted with a broad brush. Raising growth rates and enhancing the capabilities of the poor were viewed as the primary objectives. Growth for low- and many middle-income countries was linked to the performance of the agricultural sector, which employed the majority of the workforce and provided a bare livelihood for most of the poor. Because poverty was and remains predominantly a rural phenomenon and grain yields have risen slowly (1.1 percent per year), proposals for curtailing rural poverty focusing on agricultural production, rural industry, trade of agricultural commodities, and migration to cities have recurred in report after report, even as the share of agriculture in the gross domestic product (GDP) has shrunk in virtually every country, even the poorest. Whether the content and efficacy of the policy recommendations have deepened significantly with the advances in analysis is a point I return to when discussing key themes in chapter 3.

In setting the stage, the first *WDR* pointed to the emerging role of industry as the leading sector. It also drew attention to trade as a source of demand and a channel for earning the bulk of vitally needed foreign exchange, because resource transfers through aid and private flows of capital were too small to satisfy potential demand at that time.

The first *WDR* touched on and the second further elaborated the changing sectoral composition of developing countries, which was affecting their ability to grow and to raise living standards. Hence, in the 1979 *WDR*, the emergence of the urban-industrial economy—which would be the source of most of the new and higher-value-adding jobs and most new exports—received attention.

An Innovative Report

Conceptually, neither of the first two *WDR*s broke any fresh ground. The policy suggestions were general and conventional. The first two reports presented mainstream thinking in an accessible manner, with three important additions, which might explain the mystique of these documents. First, they provided between one set of covers a narrative on development and the international context within which this narrative was unfolding. Such reports are commonplace today, but not in the 1970s. At that time, we were not inundated daily with facts and opinions on the global economy.

Second, the World Bank used its resources and its access to data to generate a decent statistical picture of development.[1] This was a considerable innovation. For the first time, many statements on the dynamics of development could be buttressed by facts. For the first time, readers were given a good sense of the magnitudes involved, and this insight was vital for determining the scale of problems and for calibrating policies. In effect, the *WDR*s helped to make development economics more numerate and altered the nature of discourse. Henceforth, arguments and counterarguments had to be backed by numbers, and the *World Development Indicators*, which were an annex to the earlier *WDR*s, fundamentally thickened the empirical content of development economics.

A third addition was the embedding of poverty into the discussion on development, making poverty alleviation an inextricable, if not prime, objective of development. From at least the time of McNamara's speech in

1. The review of the first *WDR* in the *Guardian* newspaper praised the "absolutely riveting set of new style statistics on world development."

Nairobi, poverty was a part of the lexicon of development, but the championing provided by *WDR*s pulled poverty to the very apex of the development effort. The idea of ridding the world of poverty began to acquire both urgency and a moral imperative that it had never possessed before.[2] Moreover, the World Bank made poverty tangible by offering numerical information on the extent and depth of poverty.[3] Poverty alleviation became a rallying cry for the Bank and for all those engaged in making development a meaningful objective. Vanquishing poverty gave the Bank a new focus and a credible mission, and it added moral underpinnings to the economic case for resource transfers from the rich to the developing nations. Moreover, growth economics, which was in danger of losing its purchase on reality, acquired a tangible purpose. With faster growth, a nation's domestic product would increase, and the incomes of the poor would be more likely to rise. Growth acquired a more human face.

No More Trickle Down

From the mid 1970s onward, poverty alleviation was much debated at the Bank, and the current of opinion began to run against the passive approach that assumes that as long as there is growth, it will eventually trickle down to the poor.[4] How rapidly and to what degree this process would occur was unknown.

The 1979 *WDR* enumerated pathways to increased agricultural productivity such as availability of credit, use of fertilizers, research into new varieties, extension, improved infrastructure, pricing policies, and—where feasible—land reform. The *WDR* pointed to star performers such as the Republic of Korea and Taiwan, China. The authors of the *WDR* expressed

2. The process was akin to the emergence and widespread acceptance of the inalienable "natural" rights of man by the late 20th century, a slow and tendrilous outcome of the divergence between God and politics in Western societies that Thomas Hobbes helped to induce and to widen.

3. The Bank's earlier efforts highlighted the inadequacy of the available data and led to the launch of the Living Standards Measurement Study in 1980. This study is now in its fourth phase extending through 2010.

4. Although per capita GDP is the standard economists' measure of well-being, growth in per capita income affects the quality of life measured by a variety of indicators with long and variable lags. The effects are by no means instantaneous. Furthermore, the Easterlin Paradox, validated by research in many countries, consistently shows that expressed happiness seems not to have risen as incomes have climbed in the industrial countries (A. Clark, Frijters, and Shields 2008; Easterlin 1998).

the wish that a prospering agriculture would partially quench the hunger for urban "bright lights," but if cities continued to grow, the *WDR* exhorted municipalities to strengthen their finances, provide mass transport, increase the housing stock and upgrade slums (as Jakarta was doing), and perfect a system for delivering services at low cost. With energy prices on the rise once again in the late 1970s, the *WDR* also added a pitch for energy efficiency and for alternative sources of energy. All of this advice was as sound then as it is now. Singapore appeared to be on the road to success, and we know that it traveled far. Other cities, such as Karachi, Lagos, and Manila, were struggling then and continue to struggle with problems that have multiplied.

The spadework associated with this *WDR* (conducted mainly by the Bank's operational staff) and the prior research for *Redistribution with Growth* (Chenery and others 1974) helped to stimulate thinking on measures that might accelerate the trickle-down process. From this research emerged an approach to meet the so-called basic needs of the poorest 40 percent of the population.[5] This notion was conceptually rather amorphous. It never won a sufficient following because it did not acquire theoretical foundations, and some suspected that it might become a device for reducing official development assistance (Ranis 2004b). But along with advances in the theory and measurements of human capital, the concept of basic needs mobilized strong support for education and health as ways of enhancing living conditions and improving the earning capacity of the poor (Ranis 2004b).

The persistence of poverty and the need for pro-poor policies to whittle down the number of people living below the poverty line were the themes of the 1980 *WDR*—the Bank's first report on poverty. Although growth was underscored, the report saw it as a necessary—not a sufficient—condition

5. The basic needs approach had its genesis in some work conducted at the International Labour Office (ILO 1976) and in the Bank's Policy Planning Department. In the Bank, those engaged in making basic needs more than just an empty box were Shahid Burki, Mahbub ul Haq, and Paul Streeten. The fruits of their labor were presented in Streeten and others (1982). Basic needs intersects with Amartya Sen's (1979) concept of human capabilities, which he first described in "Equality of What?" and subsequently elaborated in later publications and work done jointly with Martha Nussbaum. The United Nations Development Programme's first *Human Development Report* (UNDP 1990) pursued this theme and the implied targeted provision of services to the poor, under the overall direction of Mahbub ul Haq (who later joined the United Nations Development Programme) with inputs from Paul Streeten and Amartya Sen. In an interview with Nermeen Shaikh (2007), Amartya Sen describes his role and interaction with Mahbub ul Haq.

for reducing poverty, and the report stressed the importance of managing health, education, and population growth.[6] The 1984 *WDR* (World Bank 1984: 185) noted that because poverty can be worsened by rapid population growth, donors and developing countries must cooperate to slow population increase. But after recognizing that family planning policies needed to complement measures to provide education, health, and social security to the poor, the Bank decided not to pursue this issue.[7] Education and health were to acquire ever-greater prominence, but only after a hiatus that lasted almost a decade. During the balance of the 1980s, the attention to poverty and social services was overlain by other objectives associated with international "shocks," a changing of the guard in the Bank, and the strengthening of new ideological currents.

Adjustment Gains the Upper Hand

The 1970s were a decade of creeping disillusionment—not development. The frustration in the 1970s was made more acute by perceptions that had been jelling over the course of the 20th century: perceptions about the idea of progress, its seeming inevitability, and its diffusion throughout

6. Human capital seems to be firmly ensconced as a determinant of growth despite lingering doubts as to its explanatory power. But physical capital has not been dethroned. Even those who have made room for human capital in their models continue to show that physical capital is correlated with long-term growth in output per worker and with longer-term GDP growth (Bernanke and Gurkaynak 2001; Mankiw, Romer, and Weil 1992). And other research shows that domestic saving remains the key source of financing, even in open economies, foreign saving being a partial substitute induced to a degree by the incentives offered by local financing (Aghion, Comin, and Howitt 2006; for an update on the Feldstein-Horioka puzzle, see Coakley, Kulasi, and Smith 1988). The trouble with all of these findings for the policy maker looking a year or two ahead is that the long-term story of growth is at odds with the shorter-term story. Neither physical capital nor, for that matter, human capital can explain growth accelerations, and these accelerations have a distressing tendency to fizzle out (Rodrik 2007). In any case, increasing either in a short period of time is extremely difficult, and while reforms and regime changes can sometimes do the trick, the likelihood is quite uncertain (Hausmann, Pritchett, and Rodrik 2004; B. Jones and Olken 2005). Growth slowdowns are another matter. In Southeast Asian countries, savings have remained stable since the crisis of 1997 to 1998, but investment rates have dropped, and this decrease has not been offset by a lower incremental capital output ratio or a faster increase in total factor productivity (which would occur if declining investment reflected more efficient allocation and less irrational exuberance), with the result that growth rates have followed investment down (Eichengreen 2007).

7. At the first United Nations–sponsored international conference on population held in Bucharest in 1979, developing countries were cautious and a little skeptical about the recommendations from Western countries that they needed to control population growth. When the second conference was convened a decade later in Mexico City, developing countries were coming around to the view that the increase in population needed to be restrained, but by then the United States was focused on free markets as the elixir for development (see Rosenfield and Schwartz 2005).

the world. As DeLong (2000: 3–4) remarks, "If in the eighteenth century people began to think of the idea of progress and in the nineteenth there actually began to be visible progress, in the twentieth century we expected and today we expect progress. We find it hard to imagine what it would be like to live in a society not experiencing rapid material progress." For most developing countries, the 1980s turned out to be even harsher, although a small number dramatically improved their performance and began exerting a profound "demonstration effect." A second oil shock in 1979 and 1980 was a brake on growth,[8] but worse, it ushered in an era of stagflation and resource imbalances for many countries. Thus, achieving macroeconomic stability and resource equilibrium became a major preoccupation overshadowing both growth and poverty alleviation.[9] Adjustment became the mantra of the decade. In the Bank, structural adjustment became the axis of development thinking and policy and the driver of operational activities.

McNamara's departure from the Bank in 1981 and his replacement by A. W. "Tom" Clausen, a former head of the Bank of America, moderated the World Bank's commitment to the dual objectives of growth and poverty alleviation. "The Bank," wrote Stern and Ferreira (1997: 560), "under A. W. Clausen as president, took a cautious line, changing the focus from macroeconomic concerns with the availability of foreign finance (so prominent under McNamara) to microeconomic advice on 'getting the prices right.' External causes were de-emphasized, and blame for the crisis was laid predominantly on domestic policy errors, notably the use of borrowed funds for consumption or for investment purposes that were badly directed, partly due to distorted prices." The 1980s were a decade when the earlier approach to development was being sidelined in view of the flagging performance of developing economies in the 1970s. Under the Bank's

8. Frustration with progress on the development front also arose from the smallness of aggregate aid flows, the resistance of military governments in countries such as Brazil and Chile to policy advice, the need to subordinate sound assistance practices to avert chaos in countries subject to often self-inflicted economic injuries and also to maintain Cold War–related alliances, and the readiness of countries with access to newly augmented supplies of petrodollars to follow their own wayward policies (Kapur, Lewis, and Webb 1997). The constraints that alliances imposed on donor countries continue to hamstring efforts to "advise" client countries or constrain a withdrawal of assistance, as examined by Root (2008).

9. Stern and Ferreira (1997: 545) write that, "under the new direction given to the research department from 1982 to 1987, the concern with the effects of adjustment on inequality and poverty does seem to have been deemphasized. This is apparent in the little attention dedicated to that concern in the *WDR*s of that time."

new management, market-based economics began to dominate, echoing a similar change in mindset among mainstream American academics.[10] In particular, the Bank's vice president for development economics, Anne Krueger, who replaced Hollis Chenery, was a staunch advocate of market solutions, and by prevailing over the views of her peers in the management group, she hitched the Bank's approach to development firmly to market forces.

Such thinking had been gaining ground, especially in the United States, for some time. Stagflation in Western countries and slow growth in developing economies through the 1970s induced skepticism of the state-led formulas, import-substituting industrialization (ISI), and the leading role of the public sector and of regulations governing trade, finance, industry, and the labor market.[11] Economists began looking to market forces and competitive pressures to restore growth and revive productivity.[12] Influential politicians found this message appealing, and a diminution of the regulatory state along with the partial dismantling of the public sector through privatization was championed by two of the most influential leaders of the 1980s: Ronald Reagan and Margaret Thatcher. Their political support changed the rules of the economic game and reinforced the ideological current urging reforms and greater openness. Kanbur

10. The efficiency of competitive markets, when they work, has a solid grounding in theory. By the 1970s, more and more empirical support had begun accumulating. Pricing, market competition, and free trade are like mothers' milk to economists. Everyone partakes of these factors, but the "hidden hand" is dearer to some than to others and the "magic of the marketplace" is more apparent in some times and at some places than in others. During the quarter century following World War II, the market received due respect in the mixed economies, but not unswerving commitment, and it was largely rooted out in the formal segments of the socialist economies. However, by the early 1970s, a neoclassical resurgence was noticeably apparent, especially in the United States. Among the believers, Béla Balassa's was one of the most respected voices, and his book, *The Structure of Protection in Developing Countries* (Balassa 1971), powerfully argued for the lowering and uniformity of trade barriers and for market pricing. Balassa began consulting for the Bank in 1966, and his views commanded respect, and under Anne Krueger, a more dogmatic neoclassicism gained the upper hand in the Bank. De Haan, Lundström, and Sturm (2006) approvingly survey the empirical evidence on the efficiency of market mechanisms.

11. Two pieces of research that did much to discredit the ISI approach by uncovering its costliness were by Little, Scitovsky, and Scott (1970) and by Bhagwati and Krueger (1973). Additional research buttressing this finding, commissioned by the World Bank, appeared in Michaely, Papageorgiou, and Choksi (1991).

12. Cole and others (2004) ascribe the slow growth of Latin American countries to the lagging rates of increase in total factor productivity. They maintain that the problem can be traced to the large size and inefficiency of the public sector and to trade and entry barriers that reduced competitive pressures on and technology acquisition by domestic industry.

(2005: 13) rightly notes that all of a sudden, in the early 1980s, a switch was thrown, and mainstream economics as practiced in the United States went "from a situation where the state could do no wrong to one where the state could do no right.... The pendulum swung too far the other way. That it began to swing the other way was due to experience. That it swung too far the other way was due to ideology."

External imbalances, financial crises, and inflation—which afflicted many countries, especially in Latin America—were linked to state mismanagement of finances and to the weakness of excessively sheltered financial systems, many of which were dominated by the publicly owned banks. In tackling the problem of resource imbalances, economists began emphasizing domestic resource equilibrium through reforms to increase revenue effort and a one-time augmentation of public resources through the sale of public entities. Tax and public sector reform and privatization, quite suddenly, became immensely popular with policy makers,[13] not the least because public sector deficits in some industrial countries made greater revenue effort a matter of urgency. Much scholarly energy went into designing optimal, decentralized tax systems that met revenue needs while minimizing disincentive effects and into devising optimal ways of auctioning and privatizing public enterprises.[14] This activity was matched

13. These changes encompass civil service reforms, decentralization, and reform of administration (see World Bank 2008a).

14. At that time, much research tried to show that the size of government spending, the size of the public sector, or the steepness of tax rates could slow growth. The Laffer curve captured the essence of this thinking, and although it garnered some empirical support, high levels of public spending in Botswana, the Nordic countries, and Singapore did not detract from their growth performance (Rodrik 2007: 39). Although privatization, especially of industrial enterprises, on balance improves performance and profitability, much depends on the incentives and competitive pressures emanating from the surrounding institutional environment. Creating institutions that will foster longer-term competition is a challenge for policy (Armstrong and Sappington 2006). The modest successes and variability of outcomes worldwide—and more specifically in Europe and in the former socialist economies, where privatization has occurred on a vast scale—is reviewed and assessed by Yusuf, Nabeshima, and Perkins (2005) and by the contributors to Köthenbürger, Sinn, and Whalley (2006) and to Ito and Krueger (2004). Needless to say, when it comes to public utilities, natural monopolies, and even the financial sector, the autonomy and technical expertise of regulatory agencies and the design of regulatory institutions strongly influence economic performance (Jalilian, Kirkpatrick, and Parker 2007). Moreover, as experience has repeatedly shown, the longer-term efficacy of the regulatory system in any area depends on the avoidance of politicization and industry capture of the regulators, the maintenance of high-quality management, and the progressive evolution of the institutions themselves so as to accommodate changing conditions and innovations (Kay 2002). The costly financial crises in developed and developing countries alike have repeatedly driven home these lessons, but legislators and regulators rarely learn and, at best, are prepared for a rerun of the last war and not for a conflict subject to new ground rules.

by equally intense efforts at creating regulatory structures to monitor and supervise newly privatized public utilities, natural monopolies, and banks. Theorizing and policy making triggered by political and economic exigencies in the United Kingdom, the United States, and a few other Western industrial countries quickly spilled over into the advice given to developing countries, with the World Bank leading the charge.

To balance internal adjustment through the reform of public finances and a deepening of the financial sector, development economists also pursued external adjustment, with increasing reliance on market forces. Greater exchange rate flexibility and a more open trading environment gained favor. The wrenching experience with devaluations in the 1970s and the constraints exchange rate fixity imposed on domestic monetary policies paved the way for a broad acceptance of varying degrees of flexibility achieved through a variety of more or less transparent mechanisms for pegging and floating, which were—and are—endlessly debated.[15]

Freer trade—already promoted by the Kennedy and Tokyo Rounds and the creation of the General Agreement on Tariffs and Trade—was boosted by the ambitious Uruguay Round launched in 1986. With countries anxiously seeking pathways to higher growth, a multilateral lowering of trade barriers offered a ray of hope, and the circumstances induced a mutual give and take that has been conspicuously missing from the negotiations associated with the Doha Round, which started in 2002.[16]

The case for openness—for developing countries wedded to protection—was buttressed by the experience of the East Asian "tiger economies,"

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15. In many countries where inflation was a persistent concern, the enthusiasm for exchange rate flexibility was curbed by the need for nominal anchors for prices. The importance attached to stabilization also arose from the fear that inflation would smother growth. Following the oil shocks in the 1970s and because of weak macroeconomic management (with some governments attempting to bolster their public finances through inflation taxes), inflation surged, rising to hyperinflationary levels in a few countries. Earlier it appeared that efforts to stabilize might have been too aggressive. When Bruno and Easterly (1998) assessed the costs of inflation in terms of sacrificed growth, they found that only fairly high rates took a toll—in the 40 percent range or higher. More recently, Khan and Senhadji (2001) showed that the safe threshold was in the 11 to 12 percent range. In any case, reducing inflation to the low single-digit levels, as countries were urged to do, did not improve growth performance (Temple 2000).

16. Blonigen (2008) gives three reasons why trade rounds have become longer: more countries are involved, the lower hanging fruit has been picked and only the more complex issues remain, and the political will of all parties has weakened.

which quickly became the role models for other developing countries.[17] These economies were portrayed as single-mindedly pursuing growth through the export of manufactures, relying mainly on market forces to guide the allocation of resources, and exploiting the advantages of greater openness to gain access to overseas markets and to ensure the competitiveness of their industries. Although the degree to which market forces were responsible for directing resource flows to areas of comparative advantage was far less than was assumed, and although most tiger economies nurtured industries behind trade barriers, the East Asian economies, by virtue of their successful growth performance, became the ones to emulate.[18] The message distilled from their experience was that market-guided industrialization within the milieu of a relatively open economy could result in rapid growth if industries were able to compete in export markets.

Thus, economic stagnation in the 1970s and the interrelated oil, financial, and adjustment crises of the early 1980s, which engulfed developed and developing countries alike, prepared the ground for globalization and changes in the role of the state.

The early 1980s were a period of economic distress, with many countries suffering from severe imbalances. It was inevitable, therefore, that the theme of the 1981 *WDR* was adjustment or structural adjustment, as interpreted by the Bank.[19] Structural adjustment was decomposed into two types of policies. Macroeconomic policies stabilized the economy with the help of demand-reducing fiscal policies and resource-switching

17. The East Asian tiger economies were more predisposed to seek foreign markets because their domestic markets were small, whereas firms in several of the Latin American economies had relatively large and secure domestic markets (Etzkowitz and Brisolla 1999). Although Korea aggressively sought to expand exports, and the government doled out favors to the *chaebol* (large conglomerates) on the basis of their export performance, national interest and national pride made Koreans highly protectionist with respect to imports not directly feeding their export industries. This effect conforms with the findings of Mayda and Rodrik (2001) about what makes some people and countries more protectionist.

18. The East Asian model diverged substantially from the institutions and policies sanctioned by the mainstream consensus (Amsden 1989; Chung 2007; Crafts 2004a). In fact, Rodrik's visiting "Martian observer" would have had to conclude that because of these discrepancies Japan, Korea, Singapore, and Taiwan, China, had so egregiously violated neoclassical strictures that they had no chance of developing (Rodrik 2007: 18).

19. The 1981 *WDR* was only one among many reports and documents produced by the Bank on the merits of structural adjustment. The Berg report on Africa (Berg 1981) was at least equally influential, and incessant verbal reinforcement in the Bank, led by Stanley Please among others, generated a fervor that bordered on the religious.

exchange rate policies, which channeled more of the economy's resources into exports. Stabilization policies were supposed to reduce domestic and external resource imbalances and curb inflation, thus creating, in principle, an environment more conducive to growth. The other side of adjustment entailed microeconomic engineering through the decontrol of prices, deregulation, privatization of state-owned enterprises, and the dismantling or pruning of public bureaucracies through public sector reforms. This aspect of structural adjustment was seen as vital to ridding the economy of many distorting regulatory encrustations, shrinking the state, and (most important) optimizing the allocation of resources by getting the prices right—one of the enduring mantras of the 1980s and emblematic of the notorious "Washington Consensus" (see chapter 3).

Structural adjustment had an international dimension as well, which was to encourage the recycling of funds from surplus to deficit countries. The 1981 *WDR* recommended that developing countries faced with adjustment problems be given the breathing space not only through increased resource transfers from overseas in the form of official development assistance, but also through borrowing from private sources and greater reliance on foreign direct investment. This approach helped some countries. Others built up debt obligations that plagued them in the future (Ferreira and Keely 2000).

The Bank yearned for states that adopted a low profile, stuck to providing only the essential public services, and were sparing in their policy interventions, but as described in the 1991 *WDR*, generally the strong states were the ones that succeeded in satisfactorily stabilizing their economies and introducing market-friendly reforms. In weaker states, potential losers among the elites, state sector employees, recipients of subsidies, and beneficiaries of price regulation were able to resist taking the bitter medicine that was packaged with the structural adjustment loans.

The 1991 *WDR* also drew favorable attention to the flexibility and export orientation of some countries, such as Korea, which were singled out for their resilience. The note of neoclassicism was to deepen and echo through reports issued into the 1990s, as the Bank was persuaded that creating macroeconomic stability, weeding out internal distortions, and subjecting resource allocation to market discipline were the keys to adjustment and growth.

The 1983 *WDR* went searching for efficiency; uncovered plenty of inefficient projects in the Côte d'Ivoire and Indonesia, for example; and decried the poor maintenance of public highways in Brazil, Nigeria, and elsewhere and, more generally, the waste of resources by public providers. The report embroidered on the theme that was to become a hallmark of the *WDR*s: urging a reliance on the market mechanism, replacing public monopolies (in urban transport, for example) by private firms, and sharply pruning and streamlining regulation. Pragmatism, flexibility, and consensus building were the attributes supposedly responsible for the performance of Brazil, Japan, and Korea in the 1970s, and these attributes fitted well with the basic message the Bank wanted to convey to developing countries: build a robust, market-driven economy in the image of the dynamic Western economies.

Two years later, the 1985 *WDR* returned to the unsettled issue of adjustment and its financing, noting the advantages of complementing project assistance to developing countries with structural adjustment loans that could finance the transitional costs of restructuring and policy reform. The report dwelled on how the resource transfer process was being mediated by newly formed aid consortia and by the ongoing rescheduling initiatives to provide breathing room for borrowers and some relief to lenders caught in the financial train wrecks caused by oil shocks. For the many developing countries that borrowed from commercial sources, the pain from the second oil shock was made more severe by an interest rate shock caused by the massive borrowing of the United States to finance its budget deficit. Looking for exemplars, the 1985 report praised Korea for productively investing the large amounts it borrowed through the early 1980s. It also praised Hong Kong, China; Malaysia; and Singapore for the growth of export-led electronics industries.

By 1986, with adjustment proceeding haltingly and financing gaps continuing to hamstring borrowing countries that were slow to reform, the *WDR* fixed its sights on trade in agriculture products. If developing countries could increase the exports of agricultural commodities, they would partially reduce the financing shortfall. They would lessen poverty in rural areas, and importing countries would gain from scaling down the costly barriers against sugar, oilseeds, and food grains. As is well known, many of the barriers—mainly agricultural subsidies in Organisation for Economic

Co-operation and Development countries—are still firmly in place, despite the Uruguay Round and efforts made to free the trade in agricultural products as a part of the faltering Doha Round. The estimates of gains for all sides presented in 1986 failed to convince policy makers confronting powerful political constituencies.[20]

The issue of financing development from domestic and external sources recurs in the 1987 and 1989 *WDR*s. The first looks more into the scope for raising capital flows from external sources, given the environment of the 1980s, and for using the flows effectively. The 1989 *WDR* concentrates on domestic financial development and regulation against the backdrop of the financial crises that were a worrisome feature of the decade and in light of the increasing mobility of capital that the *WDR*s encouraged by calling for an easing of capital controls.[21] The 1987 *WDR* complemented the story of financial resource availability and mobilization by analyzing public finances in developing countries with reference to adjustment needs, the demand for capital, and the beginnings of a trend toward fiscal decentralization.

The decade of the 1980s was bookended by two *WDR*s on poverty. In 1990, the Bank took another close look at what the crises, adjustments, shifts in policy orientation, and greater openness had done for poverty. Predictably, given the weak and variable growth performance of all but the East Asian countries, the poverty scorecard and trends in income distribution were disappointing for most countries. Latin America had lost a decade of development. Sub-Saharan Africa was sliding backward with per capita GDP declining overall. South Asia was little better.

The 1990 *WDR* reaffirmed the new conventional wisdom regarding the need for leveraging the market in order to stimulate growth by strengthening market institutions. The *WDR* also stressed the importance of social services for building human capital, which was the ticket to development

20. However, with rising food prices in 2007 and 2008, importing countries may be readier to bring down tariff and other barriers on agricultural imports, raising hope for liberalization of agricultural trade.

21. Whether a deepening of the financial sector contributed to growth or was endogenous to growth was still being debated in the 1980s. The case for causality running from finance to growth has been strengthened by an outpouring of research that has examined the role of finance in development across countries over the past several centuries and in recent decades. Rousseau (2002) provides a taste for the former, and Levine (2004) provides a review of the latter. However, as Ang (2008) notes in his survey, the ample cross-country evidence, because of the econometric issues involved, still does not clinch the case, and there remains a need for country-specific research to settle this matter.

for most developing countries that were rich in labor resources. Cautiously the *WDR* also promoted the notion that even poor countries would benefit from well-designed safety nets. One of the enduring legacies of the *WDR* was the US$1-a-day metric for measuring poverty.

Some saw the fall of the Berlin Wall as validating free market capitalism and international integration, which had been gaining ground in the 1980s. Many countries were well on their way toward implementing fiscal, financial, and trade reforms initiated in the 1980s. On the threshold of the 1990s, there was a readiness to believe that the potency of a set of policies keyed to the market system had been established. What later came to be known as the Washington Consensus had created the macroeconomic foundations for growth. Now the task before developing nations required detailed attention to the many interconnected sectoral and institutional components of the economy so as to resume desired rates of growth and simultaneously come to grips with the outstanding and neglected poverty agenda. In other words, the macroeconomic fundamentals had been broadly secured in many countries, the axial role of the market was widely accepted, countries were taking steps to "get the prices right" so that the price mechanism could better perform its allocative functions, and the tensions caused by the Cold War were being left behind. As Francis Fukuyama memorably put it, the events in 1989 appeared to herald the "end of history" and the dawn of an era when the market would rule (Fukuyama 1989).[22]

Imagine That There Is No State

However, this brave new world, which seemed so tantalizingly close, quickly began to recede. In most developing and transition countries, markets were woefully underequipped with institutions, and only the state could do the job of carpentering them. Hence, redefining the role of the state, identifying missing institutions, indicating how they contributed to the working of an economy, and proposing blueprints for these institutions became one of the objectives of the *WDR*s that began appearing in the 1990s.

22. It was also seen as an era of accelerating democratization, with the "third wave" gathering momentum (Huntington 1993).

Making the state into a good economic citizen that provides better services was thought to require reducing its size so as to trim public expenditures, narrowing its purview so as to limit its activities to those that were within its institutional capability and those that only the state could realistically provide, increasing administrative efficiency, and engaging the state in crafting the infrastructure for a competitive market environment. The 1997 *WDR* spelled out the division of labor between resurgent markets and a less obtrusive state that focused on appropriately scaled regulatory needs of efficient markets. Both the 1996 *WDR* and the 1997 *WDR* gave special attention to the transition economies and priority to a right-sizing of the state, but neither recommended a "night watchman state."[23] There were things only the state could do, but many, if not most, states had overreached, apparently stunting market growth. A strategic withdrawal and a credible commitment to a narrower role were desirable, clearing the way for the market and for the private sector. This approach was especially urgent in the transition economies. The Bank did not recommend a Big Bang–type divestment of public enterprises and the transfer of numerous responsibilities for services delivery onto the shoulders of private providers, but it encouraged countries to move quickly for fear that resistance to change might harden as the costs of transition wore down people's resolve.[24]

Although the divesture of state assets, the defining of regulatory responsibilities, and the nurturing of market institutions were the themes of both *WDR*s, the 1996 *WDR* also was preoccupied with fiscal hygiene, picking up on elements of the 1987 *WDR*, and stressing how a successful transition demanded an overhaul of public expenditures to make them consonant with the emerging market economy. Many activities needed to be cut back, and in other areas, expenditure had to be redirected. Subsidies, which were widespread, had to be trimmed or eliminated; entitlements needed to be reappraised and reduced. This fiscal makeover had to be coordinated with a new tax structure and effective budget management backstopped by treasury systems that monitored and controlled outlay. In

23. The expression was popularized by the libertarian literature on the minimalist state, and a frequently cited source is Nozick (1974). "Night watchman" assumes that the state slumbers most of the time, as would the average guard on night duty.

24. In fact, the *WDR*s argued for a degree of state activism to lay the groundwork for market institutions and to redefine education policies in anticipation of changing circumstances.

some countries, a degree of fiscal decentralization was desirable so as to generate revenues from subsectoral levies adequate for the revised expenditure responsibilities, to provide better services to local users, and to give market participants the right incentives.

In the 1990s, with nothing approximating a roadmap at hand, the *WDR*s boldly attempted to put down the markers for a dynamic market and for a disciplined, market-friendly state.

Contesting Poverty and Inequality under Globalization

The Bank turned 50 in 1995 to faint applause. Public protests against the Bretton Woods Institutions at the World Bank–International Monetary Fund Annual Meetings in Madrid dampened the celebratory mood. The protesters' slogan, "50 years is enough," forced the Bank's management to reappraise the Bank's development policies and to intensify its efforts to convince civil society of the Bank's relevance. In June 1995, James D. Wolfensohn succeeded Lewis Preston as president, and Wolfensohn responded to the warning by vigorously burnishing the Bank's image by building bridges to civil society organizations. Wolfensohn's desire to contain the influence of economists in the Bank and to seek inputs from other social sciences nudged the Bank to take a more expansive view of how development occurred. He was supported by two Nobel Prize winners—Amartya Sen and Douglas North—both renowned for their many-sided views of development and, in North's case, for work on institutions. A Democratic administration in the White House and the waning of the Cold War also tempered the ideological passions of the 1980s and revived the objectives that had been prominent in the earliest *WDR*s.

"A world free of poverty" became the Bank's mission statement; inclusive and sustainable development was adopted as the new strategy; and in the face of external pressures, civil society was embraced as the Bank's partner in development. The changing global context of the Bank's operations began surfacing in the *WDR*s that appeared from the late 1990s onward—reports that also carried, to varying degrees, the imprint of the Bank's chief economist from 1997 to 2000, Joseph Stiglitz. The 1998/99 *WDR* acknowledged the enormous significance of information and knowledge for development and of the unequal access to this knowledge—one of

Stiglitz's major contributions to economic theory. In a globalizing world, information, information technologies, the Internet, and institutions that were transforming the sharing of information had become as intrinsic to growth as physical capital, opening a whole new range of opportunities for developing countries and at the same time bringing them face to face with a fresh sheaf of policy issues. These issues included the pricing of information technology services, the manufacture of telecommunications equipment, physical investment in infrastructure, training in new skills, the building of innovation systems, and the protection of intellectual property, to name some of the most prominent.

The changing context of development as the world stepped into the 21st century was examined in detail by the 1999/2000 *WDR*. According to this report, the landscape of development was being reshaped by four major forces—globalization arising from flows of trade, capital, people and ideas; climate and environmental changes; localization stemming from the combined effects of fiscal and administrative decentralization; and rapid urbanization, which was creating increasingly autonomous concentrations of people and economic activity.

Against this canvas, the Bank's third *WDR* on poverty took up the theme of inclusive, pro-poor growth strategies that more fully harnessed the potential inherent in communities through active participation by community members. In addition, it attempted to magnify the effects of growth by reducing disparities in the distribution of assets. The 2000/2001 *WDR* maintained the Bank's cautious line on the role of the state, emphasizing instead the value of public-private partnerships and private initiatives to supply vital education, health, and infrastructure services. The state could bolster these activities through public regulation of pricing for such services, for instance, and by enforcing education standards. In the spirit of earlier reports, the *WDR* made the obligatory and gnomic remarks on how the state and society needed to work together. But the *WDR* pinned its hopes on private individuals finding their voices, their banding together to monitor the quality of services, and their combating disease through immunization campaigns and education. Time and again, it fastened on community-planned, community-managed, and community-implemented schemes as the way to succeed and on the contributions of private suppliers as the agents for easing bottlenecks of water and sanitation services, among others.

It was left to the 2004, 2006, and 2007 *WDR*s to add detail to the pro-poor, services-led, and redistributive and participatory development strategy reaffirmed by the 2000/2001 *WDR*, by the 1993 *WDR* on health, and by the 1994 *WDR* on infrastructure. By this time, the Bank had gone almost full circle through a forest of new research back to the views expressed in the earliest *WDR*s. Growth was necessary but not sufficient. It had to be supported by infrastructure and other services so as to build human capital, especially among the poor, and to lessen the inequity of assets and incomes. The difference was that catalyzing and leveraging community capital to encourage grassroots development was given much greater prominence, and a profusion of examples and findings buttressed the case for development with a more participatory and egalitarian face.

It is impossible to convey a sense for the smorgasbord of ideas collected from across the globe. Clearly, solving the problems of services delivery has attracted attention from many quarters. That the delivering of services remains bedeviled by problems means that we can expect another round of *WDR*s on this topic 30 years hence, if writing such reports remains fashionable. What we now know more clearly than we did in 1978 is that providing quality health and education services is a task of daunting complexity. To arrive at decent results calls for a melding of market incentives with regulatory checks and direct public provision, which can vary from case to case. There is no one solution, naturally—only broad guidelines with multiple embedded requirements. An example is decentralization, plus the autonomy and flexibility of providers that are disciplined by standards, quality and certification procedures, and competition and by mechanisms of accountability that are enforced by individuals, the community, and public agencies working individually or in tandem. Limited autonomy given to teachers in designing courses that students find to be relevant and in adopting pedagogical styles can be usefully reinforced by financial incentives to induce motivation.[25] Attempts can be made to raise

25. Mullainathan (2005: 63) ascribes teacher absenteeism, which is widespread in South Asia and Sub-Saharan Africa, to a lack of motivation because "teachers are often frustrated by the apathy of parents towards their children's education.... As teachers perceive it, their own efforts to keep the children at school are not reciprocated by the parents." Mullainathan frames a solution in terms that would make the average policy maker quail. He writes, "The problem of teacher attendance cannot be studied in isolation.... The impact of teacher incentive policies may vary dramatically with the context. In a context of limited resources where attendance is low, these policies may have only a small or moderate impact. On the other hand, if teacher incentives are coupled with other policies to increase both resources as a whole and student attendance, the impact might be much

teacher quality through more rigorous certification, except that this process could diminish the supply of teachers. But it would not reduce the variation in teacher quality (Hanushek and Rivkin 2006). Conditional cash transfers can encourage students to attend school. But that alone will not do the trick when the home or cultural environment is unfavorable. The amount of time parents devote to nurturing their children matters, and at least the research in the United States shows that it is the wealthier and better educated parents who give more time and attention to their children (Guryan, Hurst, and Kearney 2008). If this is the case also in developing countries, then the gulf between the home environment of the lower- and upper-income groups will be harder to close. School resources are yet another policy instrument that receives attention, but as Hanushek (2006: 902) observes, "even in the poorest areas of the world, it is difficult to identify a minimum threshold of resources where there are clear impacts on student outcomes."

Although "findings" are abundant, policy making on education, even in the United States, faces severe challenges: the high school dropout rate is increasing and graduation rates are inching downward, although the demand for skilled labor is rising and with it the earnings premium for skills (Altonji, Bharadwaj, and Lange 2008; Deming and Dynarski 2008; Heckman and LaFontaine 2008). Economic incentives appear to be overshadowed by other considerations, and thus far, the best research is failing to produce a reliable compass.

Picking up some of the threads from the 1995 *WDR*, the 2007 *WDR* notes that youth in developing countries need—in addition to grants and loans—mentoring, employment services, on-the-job training, and at times employee sponsorship to be effectively absorbed into the job market: a big challenge for training systems in developed countries and an almost impossible one in developing countries.

larger. The teachers would then no longer feel self-justified for their absence, and the incentives needed to get them to work may be much smaller." The limited research on financial incentives for teachers is mainly derived from the United States and comes to equivocal results (Hanushek and Rivkin 2006). The problem of teacher apathy and low attendance appears more acute when it emerges that teachers are already relatively more expensive (in terms of salaries) in poor countries than in ones that are better off (Banerjee and Duflo 2004). Even if the problems of teacher and student absenteeism are solved, low-income countries do not necessarily derive the above-normal gains from education that one would expect in view of the shortages. In fact, the return to an extra year of education is no higher in poorer countries (Banerjee and Duflo 2004). Of course, we can cherry-pick the results that we like and that conform to our priors and criticize those that do not, which is common enough, but all econometricians live in glass houses, and sadly, all results have a soft and vulnerable underside.

Competition from private schools and health providers is an important spur to competition, and the main source of growth in supply for lower-income groups is access to privately supplied services, with some assistance from vouchers and targeted subsidies. Where public agencies or community bodies have the administrative capacities, contractual arrangements that set fees can help deliver quality services, appropriately distributed.

The *WDR*s recognize that setting, collecting, and regulating user charges for energy, sanitation, and water is never easy, because a consistently effective, autonomous, and apolitical body is hard to create. And even when user charges generate a flow of revenue, many projects need a diversity of sources of financing to break even. All of these challenges are illuminated by a wealth of examples on financing services, with commentary on how well individual initiatives have performed.

The three *WDR*s on poverty have impressively summarized the evidence at different points in time and have helped to make poverty the focus of national and global attention. Each decadal *WDR* has documented our deepening understanding of poverty and the multistranded efforts to drive poverty back. The earliest *WDR*s expressed the Bank's belief that growth must be supplemented with active measures to redistribute the benefits achieved for poverty to be decisively repulsed. The 1980, 1990, and 2000/2001 *WDR*s have successively elaborated on the scope for direct intervention and the forms it can take within the framework of a market economy. Other *WDR*s have described how human and community or social capital can attempt to accelerate the reduction of poverty. Increasingly, the *WDR*s have underlined the potential for decentralized community-led, community-financed, and community-monitored schemes and the desirability of public-private partnerships. A belief in the utility of direct actions has been fused with the view that such actions should enhance the supply of certain essential services that together will enlarge the economic potential of the poorest. The latest *WDR*s hew to the storyline of the earliest reports and echo sophisticated notions about basic needs and capabilities that first surfaced in the 1970s. However, they substantially embellish the proposals from three decades ago, and supporting the current views is the full weight of recent research on the microeconomics of services delivery.

What the research cannot establish is the scope for lowering poverty levels using services as the lever in the absence of robust growth, although with growth the effect of services can be enhanced. Nor has it been easy to find more than a small handful of examples of countries that have maintained or achieved a more equal distribution of income. Try as we might, there is no escaping the growth imperative. Better policies can reinforce the effects of growth on poverty, but when growth is weak, services cannot easily be financed, nor are they likely to contribute more than marginally to the overall reduction in poverty. However, in the majority of cases, growth has not improved the distribution of income. In fact, in most high-performing East Asian economies, the incomes have become more skewed. So the *WDR*s, since the beginning of the decade, have oscillated between topics related more to poverty alleviation and topics slanted mainly toward growth. Whether the reports address one theme or the other, the orientation is toward the microlevel issues that keep the private sector firmly in their sights and that offer suggestions on coping with narrowly defined problem situations.

From Getting Prices Right to Getting Institutions Right

The microeconomics of growth in the 2002 and 2006 *WDR*s places a heavy emphasis on institutions that affect market functioning and the entry, innovativeness, and growth of firms. The disappointing experience with implementing structural adjustment programs in the 1980s and the weak response of growth to the market (institution) building policies deployed during the period convinced the Bank that governance, rent seeking, and regulatory policies were critical bottlenecks to growth. The dead hand of even a shrunken state could continue stifling the economy. Hence, the *WDR*s directed their firepower at four target areas. First was the governance of regulatory bodies that affected the functioning of numerous private providers of everything from financial to infrastructure to health services. The transparency, accountability, and independence of these bodies needed to be improved, and their administrative and policy-making capacities strengthened. The *WDR*s loosened salvo after salvo at the recalcitrant issue of governance, as defined by the Bank.[26] The

26. The 1983 *WDR* was the first to draw attention to the quality of government. Its importance was further underlined by a report titled *Governance and Development* (World Bank 1992) and

second target was information gaps and asymmetries—the cause of market failures and countless economic ills. Fixing institutions or removing impediments to the free flow of information through market and media channels were matters of urgency.

The third target was a concern over barriers to the entry and functioning of firms, created in part by regulations that curtailed competition. Nick Stern, the Bank's chief economist from 2000 to 2003, was instrumental in making the assessment of the investment climate in member countries an integral part of the Bank's economic analysis of countries. His conception of the determinants of this climate was sweeping and required detailed, locally conducted surveys of firms. These surveys complement and go beyond the Doing Business data that the Bank has been collecting since 2004. To make the investment climate more supportive of growth required filing down the transaction costs arising from formal rules of entry, such as registration. It includes a rating of customs procedures, labor laws, visits to workplaces by inspectors, rent-seeking behavior of officials, and many more indicators. As with the Doing Business indicators, the Bank sees some merit to having entry regulations, so it has not called for a wholesale elimination (which would be logical) of such rules. But it is convinced that lowering costs, simplifying procedures, and shortening the time needed to fulfill them; making internal labor markets more flexible; and creating greater transparency would be good for competition and for growth. Whether or not this short-term advantage translates into longer-term gains in terms of lower life-cycle transaction costs and higher growth has been downplayed to make the diagnosis easier and to arrive at simpler decision rules (Arrunada 2007). It is no surprise that some empirical findings point to a relationship running from a lowering of short-term transaction costs to improved productivity in the short term. But these are early days, and we know from bitter experience that short-term accelerations have a distressing tendency to tail off.[27]

was elaborated in the 1997 *WDR*, as well as in a report by the Bank that identified the corrosive effects of corruption and stressed that combating corruption should be part and parcel of the effort to reform governance (World Bank 1997). On issues pertaining to the definition of *governance* and on indicators, see Kaufmann and Kraay (2008). Quibria (2006) notes that some of the successful East Asian economies cannot claim high standards of governance, and he fails to find much by way of a positive association between good governance and growth. A recent survey of worldwide governance indicators by Iqbal and Shah (2008) concludes that they fail on most fundamental considerations: the lack of a conceptual framework and the use of flawed and biased primary indicators.

27. The research on the investment climate reported in the 2005 *WDR* uses cross-country and single-country evidence to link an assortment of factors to explain changes in investment rates

A fourth concern is enforcement of property rights, of contracts, and of rules that affect market functioning. Efficient markets need effective mechanisms to make these rights, or rules stick through formal legal or administrative means or informal community- or group-related ones.

The 2002 and 2005 *WDR*s forcefully argue that institutions matter and that there is a need for institutional diversity. In addition, the 2002 *WDR* also stresses the importance of complementary institutions. Both *WDR*s stress the case for certain kinds of regulatory institutions and particular types of remedial measures aimed at governance and transaction costs. As with public services that augment human capital and its employability, the "getting institutions right" theme continues the effort to circumscribe the role of the state and to make markets and private entities do the jobs the state has attempted to do, supposedly at considerable cost to society.

The Green Agenda and Agriculture

In the late 1980s, the Bank came under pressure from environmental groups in Germany, the United Kingdom, and the United States to take cognizance of and factor in the environmental spillovers from development. By the

and in productivity. For instance, it uses property rights, licensing procedures, tariff reforms, and reforms of regulation and of the legal system to establish the gains from a better investment climate. The net is cast widely, and whatever is caught is classified as a fish. The notion that greasing the channels through which investment flows will enlarge the flow is plausible. The eclectic selection of evidentiary material and the absence of robust, econometrically reliable results running from a limited and uniform set of explanatory investment climate variables to growth raise questions. If a set of interventions does not reliably feed through into growth and if estimation is beset by the usual medley of problems, then do we have a dependable policy tool? Investment climate surveys somewhat akin to the narrower Doing Business approach run into similar problems of determining how to make comparisons across countries, how to interpret and explain responses of firms, and how to gauge the adequacy and appropriateness of regulations. Firms frequently report a shortage of skills but will do little to remedy the problem through in-house training or by use of public training facilities. They will complain about the lack of access to credit on terms they deem acceptable; however, this response crops up in economies with flourishing businesses and in stagnating economies. In rich countries and poor, start-ups and small businesses rely mainly on their own resources, so determining whether the shoe is really pinching from these surveys is hard. It is the same with regulation. All businesses want less red tape, and this cry is heard in successful economies such as China and lagging ones in Sub-Saharan Africa. If one assumes that a sound regulatory framework to manage business development is desirable and that circumstances vary from country to country, there is no reliable rule to tell us when regulation is excessive and how much room there is for scaling back the time costs without compromising the system. Current comparisons are much too coarse grained and apply crude rules of thumb when the heterogeneity among countries would argue against such approaches. Making policy with reference to cross-country Investment Climate Assessments borders on rank empiricism and casts overboard theory and analysis, which supposedly underlie policy making. The approach runs the risk of becoming mechanical, ahistorical, and detached from context.

end of the 1980s, the Bank had created a new department for this purpose and introduced environmental reviews for all projects supplemented by environmental assessments where indicated (Marcus 2002: F134). In 1992, the *WDR* put forth the Bank's views on how growth could be made environmentally friendly. In accordance with the conventional wisdom at that time, the Bank stayed very much in the middle of the road. It supported conservation of resources and control of pollution with the help of pricing, regulation, and technology. It looked to advances in science and technology to diversify sources of energy and to increase the efficiency with which other resources were used. And the Bank turned to institutions such as titling to protect land, forest, and water resources and international agreements to safeguard the global commons.

Eleven years later, the 2003 *WDR* returned to this very same terrain. It had fresh observations and information on many of the topic areas of the 1992 *WDR* because so much more was known. However, with the Bank enthusiastically committed to the theme of institution and community development and grassroots initiatives, it was inevitable that this *WDR* was especially vocal on institutions for protecting rights over resources such as water, institutions for coastal and river basin management, and international institutions to share environmental abatement costs. Likewise, the *WDR* pursued sustainable development at the local level, exploring the role of communities, nongovernmental organizations, informal village networks, and associations in the broad and even distribution of the benefits.[28]

The first *WDR* talked of measures to raise agricultural productivity and observed that technological advances, now accelerated by biotechnologies and made more urgent by impending climate change, are a potent force. They will need to complement other factors. The 1978 *WDR* briefly

28. Local participation is attractive in theory but is an uncertain mechanism for delivering results. Thirty years ago, self-managed units in the former Yugoslavia looked better on paper than in terms of execution and outcomes. Similarly, achieving the kind of participation that leads to better services is often an uphill task. This challenge has been shown by three experiments with village-level participation to improve education services in India. Even though many villagers signed up for the programs, the effect on teacher effort or on student learning was negligible, thus suggesting that the act of participation is only a first step. How to make such programs produce results is little understood (Banerjee and others 2008). Mansuri and Rao (2004) further add that community participation in the World Bank's projects does not tend to improve outcomes. It is only with careful design, strong government commitment, the avoidance of capture by elites, and a long time horizon that a better targeting of the poor and better results can be achieved.

touched on institutions, which occupy far more space in the 2008 *WDR*. The 2008 report embraces the agricultural innovation system, mechanisms for promoting technology transfer, market coordination, and many other issues, including, of course, community-based development. Thirty years ago, sustainability was not yet on the horizon; now there is rich experience in specifying and monitoring rules, in mobilizing resources, and in disseminating technology. This theme was in tune with the *WDR*s written after 2000: the melody was the familiar one, but the high notes struck were institutions, inclusiveness, and sustainability.

The 2008 *WDR* also comes at a time when record-high prices for grain and edible oils and worries about the implications of global warming for the low-income countries with large rural populations are bringing hunger and food security to the center of policy debates. Sharp peaks in food prices have occurred in the past, most markedly between 1977 and 1980 and again in 1986, 1994, and 1998, but after each surge, supply responded to bring prices down, and such an adjustment is likely this time around as well. However, the extreme drought in Australia (which has dramatically cut the rice crop) and uncertainties about future rainfall in other parts of the world are making people less sanguine about the longer-term prospects. For many low-income countries in Africa, the situation is rendered precarious by sharply declining cultivable acreage per inhabitant (see table 2.1). Rapid population growth is one factor. Low and variable rainfall and

Table 2.1: Total Rain-Fed and Irrigated Land in 12 Agriculture-Dependent Countries with High Population Growth Rates, 2000 and 2050

	Land distribution (hectares/inhabitant)	
Country	*2000*	*2050*
Afghanistan	0.28	0.07
Benin	1.38	0.45
Burkina Faso	1.83	0.53
Burundi	0.19	0.05
Chad	4.37	1.14
Congo, Dem. Rep. of	3.75	1.06
Ethiopia	0.59	0.24
Madagascar	2.08	0.77
Mali	2.35	0.65
Niger	0.98	0.23
Somalia	0.57	0.19
Uganda	0.57	0.11

Source: Alexandratos 2005: table 3.

desertification are two additional factors that will further exacerbate the already dire circumstances (Alexandratos 2005; UNDP 2007).

Quite unexpectedly, the 2008 *WDR* picked a theme perfectly in keeping for a world once again worrying over food security in the face of rising food prices.[29] The 1978 *WDR* had sought to arrange a marriage of growth and poverty reduction through the intermediation of smallholder agriculture. Despite the passage of time and substantial reductions in the share of the population falling below the poverty line, most of the poor are still in the rural areas (three-quarters of those living on less than a dollar a day). Realizing the Bank's dream of a world without poverty still requires measures to raise incomes in the rural areas across the world, to increase migration to urban centers, and to provide employment for the newcomers; national and community-level resource management efforts to ensure the sustainability of growth; and a host of techniques (many low tech) that will raise agricultural productivity.

Searching for Growth, Finding Poverty

This chapter completes a look back over the 30 reports that have catalogued the World Bank's "passions and interests"[30] in the sphere of development. All of them engage the issues of growth, poverty reduction, and development more generally, but that is a loose way of encircling the content of the reports. There is, as the above sketch indicates, no easy way of categorizing the reports so as to bring out the logic underlying the choice of topics and the progression from one topic to the next. I have tried to relate the topics to external circumstances to which the Bank was responding, to changing currents of thinking on development, and to the views of the Bank's management. Essentially, the first few reports were mapping the terrain of development, identifying the sectoral sources of growth, arriving at some baseline measures of poverty, and experimenting with ways of tackling poverty once growth was achieved. Through a stretch of the 1980s, the Bank's energies were devoted to inducing countries to adjust and to make

29. The 2008 *WDR* referred to a likely reversal in the downward trend in food prices; however, it did not foresee the sharp increase that occurred in 2008 (World Bank 2007: 8).

30. This expression was first delineated and discussed by Adam Smith and then adopted by Albert Hirschman (1997) as the title of a quirky and intriguing book, which is definitely not on the reading lists of those whose horizons extend from randomization to endogeneity.

the transition to a market-based system that scaled down the role of the state in a globalizing environment. Thereafter, from the mid 1990s, once James Wolfensohn became president, the *WDR*s became increasingly preoccupied with growth and poverty, analyzing them from microeconomic, institutional, and sectoral perspectives.

The three big shifts between the earlier and later reports were from state-directed to market-guided development, from structural to sectoral issues, and from macroeconomic concerns to microeconomic ones. This summary glosses over details, but it approximately renders the significant changes in orientation.

These shifts are informative in several ways. They capture the big ideological move from state-dominated economies whose inefficiencies were progressively revealed, to economic systems in which the state worked with and through markets. The collapse of communism in Europe was the decisive turning point. At the earlier stage of development, structural characteristics of the economy affected growth, macroeconomic stability, and adjustment. Financial and fiscal systems were weak, the public sector bulked large, and in many low-income countries, most of the population was in the rural areas, and agricultural performance and population growth exerted a major influence on the growth of per capita GDP. Development in the 1980s and early 1990s and the reform outcomes dimmed the appeal of structural policies, especially in Latin America.

By the 1990s, inflation and the worst of the resource imbalances were under control, and macroeconomic management was better codified. But growth had not revived, and both the poverty headcount and income distributions had worsened throughout parts of the developing world. So the emphasis shifted to the micro issues. The fascination with microlevel analysis tracked the prevailing fashions in academia. These approaches favor the framing and testing of narrow hypotheses and are greatly preoccupied with the minutiae of economic plumbing. They assume that if we can gain a better understanding of every bend and twist of the pipes that are already there and a sense for the ones that are missing, it will become easier to comprehend and to manage economic forces.[31]

31. Meier (2005: 183) has rightly underlined the penchant of development economists to “think small,” preferring what one might call the “homeopathic” approach to problem solving by slicing the problem ever more finely. He writes that “much of the evolution of development economics has

Placing the 30th *WDR* alongside the first reveals glaring differences. The 2008 *WDR* is 318 pages in length, with references; it is tightly thematic; and it is shorn off the overview of the world economy that was a feature of the first nine *WDR*s. It is a more technical document, with 1,150 references and 1,100 footnotes. It is festooned with boxed information,[32] with some boxes straddling two closely argued and information-packed pages. It is immensely more informative, providing the reader with reams of cross-country experience and details on developments and policies—reflecting the outpouring of research on agriculture and related fields, not to mention the sheer wealth of information one can now marshal with a few keystrokes, thanks to the Internet. The 2008 *WDR* is far more numerate and dressed up with colorful charts and tables, reflecting advances in data gathering, computing power, and printing technology, as well as a relative decline in the costs of printing using four colors. Most notably, the 2008 *WDR* no longer contains the *World Development Indicators*. These indicators have proven to be so valuable to all those associated with the business of development that they now have a life of their own and are issued annually in a volume that rivals the *WDR* in size and sales. In keeping with the march of technology, the *World Development Indicators* are available on a CD-ROM and on the Web.

When the 1978 *WDR* was written, 70 percent of the population (and the most of the poor) in the developing world lived in rural areas. It was fitting, therefore, that the first *WDR* assigned substantial importance to the role of the agricultural economy. But the 1978 *WDR* also attempted to encompass development in the larger sense. It was concerned with the forest more than with the trees. Its ambition was pitched at a different level: to strike the high notes of development strategy as perceived in those times. Now a much lengthier report devotes many more tightly argued pages to

been based on the reductionist model of analysis—analyzing the problem in smaller and smaller constituent parts—going down from the aggregate economy to particular sectors, to firms, and to households." He continues, "In concentrating on microeconomics, economists [are] failing to focus on development as a dynamic process with attention to the interrelation of the parts" (Meier 2005: 185). The trend is to go ever deeper into the minutiae of economic decision making by trying to probe the mind of the decision maker as a saver, investor, or criminal. New subfields are springing up, such as cognitive and neurological economics, that are trying to find more scientific ways of determining how individuals make choices. Experimental economics has taken on a greater prominence, and the gaming perspective is now intrinsic to the teaching of economics.

32. This feature first appeared in the 1980 *WDR*, and its use has become rampant since, spreading in a viral fashion to other annuals and encouraging grazing instead of reading.

a small and shrinking part of the forest and takes the reader from one tree to the next. It is much more of a specialists' *WDR*, with a 25-page overview for the general reader. The 1978 *WDR* could, in those distant times, be read quickly and profitably by anyone with an interest in development issues. The circle of serious readers is likely to be smaller now because the content is far more specialized and more voluminous, and its density has risen manifold. The economic salience of agriculture is significantly lower than it was in the mid 1970s. Agriculture now contributes on average just 20 percent of the GDP in low-income countries and 8 percent in middle-income countries. Exports of agriculture commodities in 2004 composed less than 7 percent of total world exports (FAO 2006). More than half of the world is urbanized, and economic growth will be derived mainly from urban activities; agriculture itself is becoming coextensive with industry.

The 30th *WDR* does not provide a compact assessment of the state of development. It takes a narrower cut and seeks to go deeper, leaving it to other reports to satisfy the readership wanting a bird's-eye view and a sense for what the broad policy directions ought to be. Many will argue that the thematic and weightier *WDR* adds greater value, and cumulatively the *WDR*s are uncovering layer by layer the inner workings of development and making them easier to manage. That may be true. However, the fact remains that only the diligent student will read the *WDR* from cover to cover, and the vast majority of even the selected readership with an interest in the topic of the *WDR* will not go beyond the usually well-crafted summaries.

Achievement and Questions

*WDR*s are expensive to produce, and as the report enters its fourth decade, it is worth asking whether the Bank's research funds and some of its elite human capital are being used most fruitfully and whether the distilling of the received wisdom on development and the careful teasing out of policies have actually codified and simplified the task of development. Policy makers with all 30 *WDR*s in their libraries can access an enormous amount of information on past and current economic theory and practice. They have at their disposal a wealth of research done within and outside the Bank.[33]

33. Whether they are worth consulting is a separate matter. Past research in economics dates very rapidly, and the shelf life of even the most exhaustive survey is short. The citation tally for the

In principle, all of this information should make development a lot less demanding. Sustaining high rates of growth and reducing poverty should be a science with clear logical rules because powerful and tested theories are at hand, thanks to the painstaking efforts of a reputable international agency. But are sustainable growth and poverty reduction a far simpler proposition for a policy maker today than they were when the first *WDR* was published? Are we seeing evidence of this trend from the demonstrated performance of low- and middle-income countries? Are we closer to the day when the policy maker can simply wind up the economy as if it were a mechanical clock and then expect it to run smoothly, with just the occasional adjustment, some oiling, minor repairs, the periodic cleaning?

Precise answers to these questions are inconceivable. The detailed weighing of theory, policy, and evidence—even if attempted—would be monumental, unreadable, and like all of economics, ultimately inconclusive.[34] I will not attempt to do this in a short essay. However, at a more general level, I will stand on the shoulders of the *WDR*s—or, more appropriately, the shoulders of the contributors to the *WDR*s—and examine six key themes that some or all of the WDRs have sought to elucidate directly and indirectly. My purpose is to gauge how far the research has moved toward more effective and reliable policies

- on achieving and sustaining rapid growth;
- on the necessary institutional conditions for building a dynamic market economy;
- on achieving resource balances with available supplies (what is the desirable equilibrium point and how might countries arrive at this point so as to maintain a medium term balance?);

*WDR*s in academic journals provides a revealing glimpse. Most *WDR*s receive 20 to 30 citations per year, with the number decreasing after about 8 to 10 years, although many more citations appear in books and other publications. See appendix B for details on citations. The 1993 *WDR* on health remains the most widely cited because it popularized an indicator for measuring and aggregating health conditions. This so-called DALY (for disability-adjusted life year) is a metric to gauge how much savings can be derived from each type of health intervention. Using this measure, the *WDR* showed that close to half of all DALYs lost in Sub-Saharan Africa could be traced to a small number of preventable infections—diseases such as diarrhea, measles, tuberculosis, and malaria. The DALY can be a useful yardstick; however, its very simplicity has tended to encourage mechanical analyses of the cost-effectiveness of different types of treatment and preventive measures, and these analyses frequently lead to a generic menu of policies with little differentiation to accommodate the circumstances of individual countries.

34. The contributors to Pardey and Smith (2004) nevertheless take a stab at evaluating the worth of economic research.

- on the role of the state in the changing development context;
- on the recipes for reducing poverty over the longer term; and
- on whether official development assistance is contributing to growth and poverty reduction in the receiving countries.

This list is not exhaustive, and it was not supposed to be; however, these are arguably themes that the *WDR*s have circled for 30 years, and they are central to the activity of development.