The World Bank and poverty reduction: growth and/or redistribution?

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Since the mid-1990s, the multilateral development agencies viewed poverty reduction as a main development goal. In particular, the World Bank’s core mission is now to achieve a “world free of poverty”. Indeed, jointly with the United Nations Organization, the International Monetary Fund and the Organization for Economic Cooperation and Development, the World Bank has set itself several International Development Goals that should be reached by the year 2015. In the case of poverty reduction, the target consists in halving, between 1990 and 2015, the proportion of people living in extreme poverty (whose income is less than one dollar a day).

But over the 60-plus years since the World Bank’s foundation, there have been radical shifts in its approach to poverty reduction. These radical changes in World Bank’s thinking on poverty alleviation reflected, on the one hand, the rising academic advances in the highly complex analysis of the interactions between growth, inequality and poverty and, on the other hand, the varying political interest regarding the fight against poverty.

A convenient way to grasp the evolution of the World Bank’s view on this topic is to consider the definition of a development strategy advanced by Bourguignou (2004). According to this author, since a development strategy aims at reducing absolute (income and non-income) poverty, it is fully determined by its growth and distribution considerations. So the real challenge to establishing a development strategy for poverty reduction consists in identifying the nature of the links between growth and distribution. The varying weight allocated respectively to the redistribution and growth targets in various strategies for reducing poverty depends basically on the way these two variables interact.

The main purpose of this article is to show that the World Bank has opted alternatively for various strategies for poverty reduction that emphasized, at different levels, the measures to foster growth on the one hand, and the redistributive policies on the other hand. Thus we will see particularly that either the World Bank relied mainly if not exclusively on growth for reducing poverty, or it integrated instruments of redistribution in its measures to fight against poverty, viewing that economic growth is a necessary but insufficient condition for poverty reduction. In addition, it turns out that the policies specifically aimed at reducing inequalities are more taken into account in the poverty reduction strategies recommended by the World Bank in the World Development Reports (WDR) 2000/2001 and 2006.

The paper is organised as follows: the first section outlines the main phases of the evolution of the World Bank’s thinking on poverty reduction before the publication of the WDR 2006. Indeed, during the 1950s and 1960s, the World Bank considered that the best means of fighting poverty consisted in creating the conditions of the fastest possible growth. However, faced with the persistence of mass poverty and high inequalities in a great number of developing countries despite rather satisfactory performances in terms of growth, at the end of the 1960s the World Bank put for the first time the “war against poverty” at the centre of its agenda. Then during the 1970s it endeavoured to work out new growth strategies which are more favourable for the poor. Under the era of structural adjustment, the vision of the World...
Bank changed in many respects. During the first half of the 1980s, in a context of the debt crisis, the World Bank was led to put aside the objective of poverty reduction to favour the recovery of macroeconomic balances and the potential of growth of countries in difficulty. However, in response to criticism concerning the social costs of its adjustment programs, the International Financial Institution, at the end of the 1980s, reaffirmed its commitment to reduce poverty by giving greater importance to the social effects of short-term adjustment and proposing afterwards new strategies towards long-term poverty reduction.

The second section presents the main elements of the new strategy for poverty reduction suggested by the World Bank in the WRD 2006. The main message of the WRD 2006 is that “equity matters for development” and equity and growth are complementary in the long run. According to this Report, if the ultimate goal of development is poverty reduction, then an efficient development policy should enhance equity. A greater equity, which is understood as the elimination of “inefficient inequalities” (i.e. the pursuit of equal opportunities and the avoidance of severe deprivation), can reduce poverty through expanding the opportunities of the poor and accelerating long-run growth rate. Moreover, the Report contends that equity enhancement is consistent with the World Bank’s twin strategic pillars of a better investment climate and a greater empowerment of the poor.

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