DEVELOPMENT

Outreach

PUTTING KNOWLEDGE TO WORK FOR DEVELOPMENT FEBRUARY 2006

equity AND DEVELOPMENT

WORLD BANK INSTITUTE
Promoting knowledge and learning for a better world

ABOUT THIS ISSUE

The *World Development Report 2006* argues that equity is an important consideration in formulating international development policies and practices. It examines primarily the relationship between equity and economic growth as a means to an end, and maintains that equity, understood as equality of opportunity and avoidance of extreme deprivation, will, in the long run, foster prosperity.

Following on the findings of the *WDR 2006*, this edition of *Development OUTREACH* features a special report which further explores how greater equity and growth can be achieved through the design and implementation of the right kinds of policies in various regions of the world. Central to this discussion are the local and international institutions that can help promote equity. Also explored are ways of increasing the democratic participation and representation of the disenfranchised in government.

Recently, in his opening address at the Annual Bank Conference on Development Economics, which took place in St. Petersburg, Russia, François Bourguignon, the Bank's Senior Vice President and Chief Economist, cited the finding of the *World Development Report 2006* and urged the international community to help prevent elites from blocking the institutional reforms needed to achieve greater equity, when these changes are against their interests. This specific concern is echoed in two articles of the *Development OUTREACH* special report. Kenneth Sokoloff discusses how dominant groups in Latin America have maintained political power in the course of history, fostering their own interests, and how this situation has slowed down the advance of democratic institutions and, consequently, economic growth in comparison with the countries of North America. Vijayendra Rao examines the phenomenon of "inequality traps," which he describes as "situations where...dimensions of inequality (in wealth, power, and social status) interact to protect the rich from downward mobility, and to prevent the poor from being upwardly mobile."

I hope that this *Development OUTREACH* special report will contribute to an already stimulating international debate on the important issue of how expanded opportunity and inclusion of the excluded can benefit us all.

SPuri

Sunetra Puri
EXECUTIVE EDITOR

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fostering greater EQUITY

Guest Editorial

BY GIOVANNA PRENNUSHI, FRANCISCO FERREIRA, AND MICHAEL WALTON

THE WORLD BANK'S World Development Report 2006 on Equity and Development, published in September 2005, argues that greater equity is a key ingredient of long-term prosperity. In the report, equity is defined in terms of two principles: (i) equality of opportunities and (ii) the avoidance of extreme deprivation in outcomes. Societies where all members have equal opportunities and can fully deploy their talents and potential are not only fairer, but also tend to perform better in the long run, than societies that in various ways exclude and discriminate against some of their members.

This issue of *Development Outreach* gathers a number of different perspectives on the importance of greater equity for development and poverty reduction around the world. The articles that follow, written by leading thinkers and development practitioners, illustrate the three central tenets of the World Development Report: that opportunities are very unequally distributed; that the interaction between different kinds of inequality can create 'inequality traps', which hinder development and poverty reduction; and that well-designed policies can tackle these traps, leading to both greater equity and greater efficiency. In this guest editorial we briefly review each of these points in turn, in light of the articles that follow.

On behalf of our colleagues in the WDR team, and of many in the development economics community, we dedicate this special report in *Development Outreach* to a dear departed friend, Prof. Jean O. Lanjouw, whose piece on Ensuring Access to Low-Cost Drugs is included in this issue, and who was a leading scholar of intellectual property issues in the context of developing economies. She taught at Yale and Berkeley universities, and we were privileged to count her among the members of the WDR team. Jean left us shortly after the WDR 2006 was published this Fall, but her ideas and influence will long remain with us.

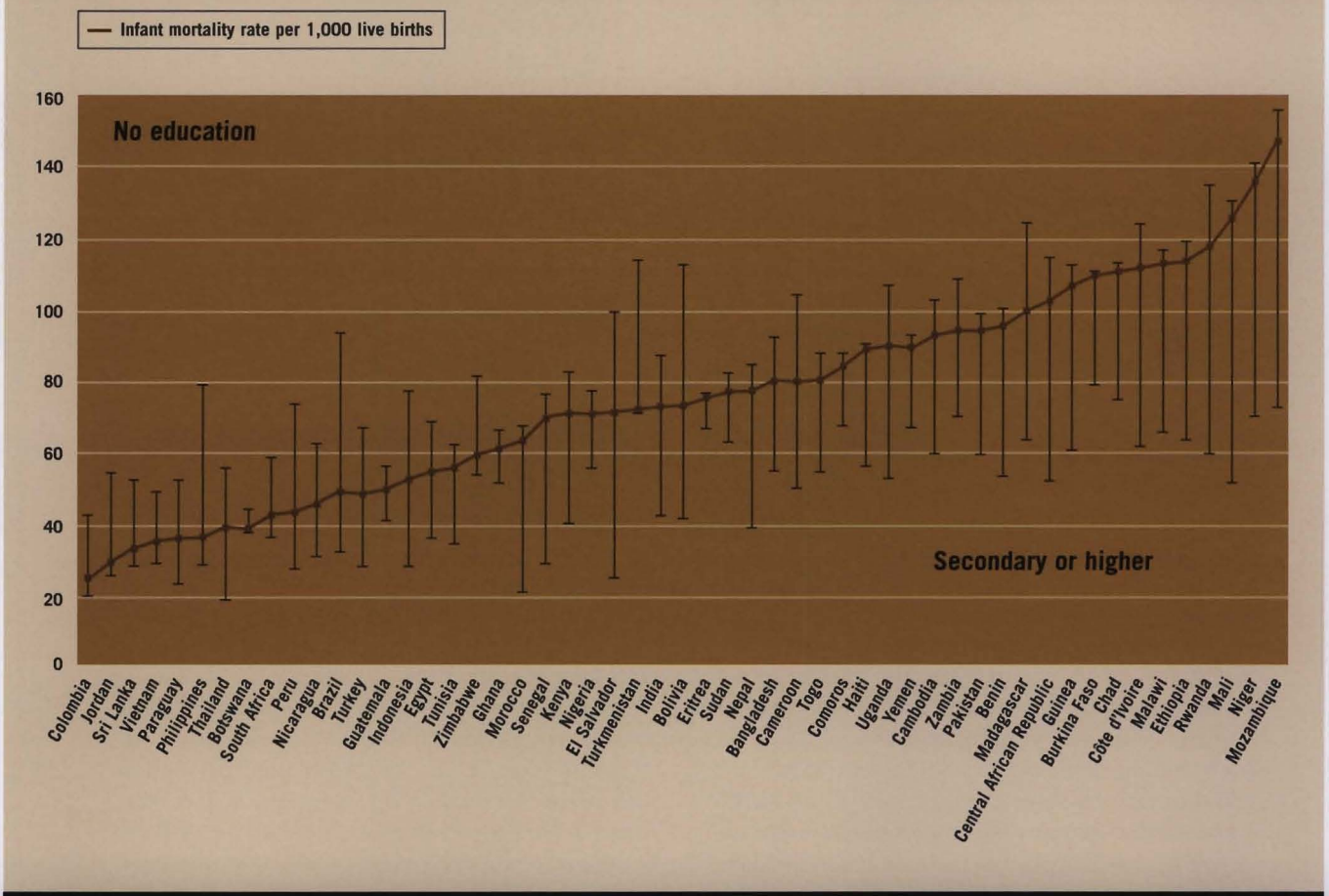
Opportunities are very unequally distributed

THE WDR 2006 describes how the opportunities to live a healthy life, learn, work, invest and innovate vary widely within and across countries on the basis of predetermined characteristics, such as gender, race and family background. These differences are a clear indication that the world today is far from realizing the ideal of equal opportunities for all.

Measuring opportunities, however, is not straightforward, since they are potentials, rather than actual observables. The main approach we take in the report is to compare outcomes that tell us something about opportunities (e.g. life expectancy), across different groups defined on the basis of predetermined circumstances. In the end, a compelling story emerges: there are major differences within and across countries in the opportunities to live a long and healthy life, to learn, to get a job and earn a living, to access public services, to have one's voice heard and to participate in political life. Within countries, these differences are often correlated with gender, family background, socio-economic status, geographical location, and ethnic-religious characteristics.

Take for example the opportunity for life itself. The chart on the following page illustrates infant mortality rates for a number of developing countries. The line in the chart shows average infant mortality

FIGURE 1: INFANT MORTALITY RATES VARY GREATLY WITHIN AND ACROSS COUNTRIES



Source: World Development Report 2006. Data come from the most recent Demographic and Health Survey available (ranging from 1985 to 2002).

rates, which vary from 25 per 1000 live births in Colombia to almost 150 per 1000 in Mozambique—almost six times as much. The bars indicate, for each country, the infant mortality rates for children whose mothers have no education (at the top) and for children whose mothers have secondary or higher education (at the bottom). The differences are striking: in some countries, such as El Salvador, children of illiterate mothers are four times more likely to die before their first birthday than their more fortunate peers—through no fault of their own.

When economic, political and socio-cultural inequalities reinforce one another, individuals belonging to excluded groups may be caught in "inequality traps". They experience barriers to access and participation that persist over generations, leading to sustained inefficiencies and performance below potential. In his article, Vijayendra Rao explores in depth the interrelated economic, political, social and cultural mechanisms whereby inequality traps persist over time.

Greater equality of opportunity is good for development

THE REPORT PRESENTS two main reasons why inequities, in addition to being unjust, are detrimental to development. First, in the presence of market imperfections, individuals with power and wealth are able to exploit markets to their advantage while others are unable to fully use their talents and potential. The poor may have limited access to credit, or access it only at very disadvantageous rates. Differences in the opportunity cost of capital across social groups leads to an inefficient allocation of productive resources, and to wasted development opportunities. Second, narrow, powerful elites tend to put in place and maintain economic institutions that benefit only themselves, at the expense of the wider public.

In their article, Markus Goldstein and Christopher Udry illustrate one of the many mechanisms through which power combines with market imperfections to produce inefficient results. They describe how a system of land tenure in Western

Ghana that is shaped by local power structures leaves large profits unexploited for those who do not have power—most notably women. The authors also note, however, that the system plays an important safety net role.

Kenneth Sokoloff focuses on the second mechanism, namely the capture of institutions by elites. He discusses how dominant groups in Latin American countries have historically managed to maintain a disproportionate share of political power, when compared to their North American counterparts. This concentration of power has contributed to slowing the advance of institutions—such as universal suffrage, the effectiveness of local government, and the provision of universal access to education—that might threaten the status of dominant groups, but which also proved to be key ingredients in subsequent growth.

Policies can bring about greater equity

AFTER DISCUSSING the reasons why unequal opportunities hinder development, the WDR 2006 discusses what can be done to bring about greater equity. The report advocates an approach to determining development priorities based on bringing more equal opportunity from the bottom up: public action should seek to expand the opportunity sets of those who, in the absence of policy interventions, have the least resources, voice and capabilities. Achieving this may, however, involve reducing the privileges of those who reap special benefits from existing institutions and policies. Such a focus would aim to level the playing field in the crucial areas of human capacities; justice and the rule of law; access to land and infrastructure; and in the broad functioning of markets and the macroeconomy. Consistently with what is argued in Rao's article, the report takes the view that there is no single recipe that can work everywhere. What will work in each country depends on context—institutions, culture, politics—and state of development.

Nevertheless, examples can be instructive, and something can always be learned from the experience of other countries. In their contribution, Karl Ove Moene and Michael Wallerstein argue that Scandinavian countries can be a useful model. They dispel the notion that Scandinavian pro-equity policies arose from homogeneous societies with a preference for equity; rather, equity arose as a result of a set of policies that compressed wages to increase employment.

Where there are trade-offs between equity and efficiency, looking at policies through an equity lens helps to emphasize the longer-term benefits of equity and to move beyond the false dichotomy between "policies for growth" and "policies for equity". Economic growth is an aggregation of income changes along the distribution, and all policies have differentiated impacts along that distribution. Based on his award-winning book *Growing Public* (2004) and his Presidential Address to the Economic History Association, Peter Lindert expands on the issue of equity-efficiency trade-offs. He argues that countries need not adopt policies that promote growth at the expense of equity and presents a checklist to find policies that are anti-growth and anti-poor and that could be changed with benefits in terms of both efficiency and equity.

PUBLIC ACTION SHOULD SEEK TO EXPAND THE OPPORTUNITY SETS OF THOSE WHO HAVE THE LEAST RESOURCES, VOICE, AND CAPABILITIES.

The importance of equity for long-term prosperity is apparent in many countries today, including China. In their contribution, Lu Mai and Calla Wiemer describe the growing divides between rural and urban areas and between inland and coastal regions. Building on the *China Human Development Report*, they suggest dismantling barriers to the mobility of rural households to cities, so migrants can take advantage of economic opportunities, while at the same time providing health and education programs specifically aimed at them, to ensure that they and their families can enjoy greater well-being. The authors also stress the importance of fostering greater public participation, of enhancing transparency, and of anti-corruption efforts.

Where inequality traps involve social and ethnic discrimination, specific policies (such as some kind of affirmative action) may be called for. Dena Ringold describes recent efforts to overcome discrimination of Roma minorities in Central and Southern Europe. The keystone of these efforts is a fund to help integrate Roma children in schools.

The WDR 2006 also examines the functioning of global markets for labor, capital, goods, and ideas, and finds that certain aspects of their governance tend to favor rich countries, to the detriment of those where most poor people live. Actions that would bring about greater global equity include progress on removing barriers to trade and agricultural subsidies, greater avenues for legal migration, and intellectual

property rights protection that does not place drugs out of the reach of poor people. In her contribution, the late Jenny Lanjouw describes a proposal to enhance access to drugs in poor countries, at effectively no cost to the incentives for innovation by large pharmaceutical companies.

How does change occur?

CHANGING DOMESTIC POLICIES and institutions in a pro-equity way is difficult. Vijayendra Rao reminds us of the need to "design public action in ways that foster greater 'equality of agency' with respect to social hierarchies." Policies should try to compensate for the lack of voice of the excluded. One example is to expand democratic participation at the local level, as in the participatory budgeting process developed in Porto Alegre, Brazil. But success requires some preconditions: transparency, effective inclusion, methods to resolve conflicts as they arise from participatory processes and maintain dialogue.

Changing global policies and institutions is also difficult. The current global context is not encouraging, and rising demands for greater equity are not being met. Against some modest increases in aid over the last two years and some steps made by the G8 towards full debt cancellation for the poorest countries, we continue to witness widespread tolerance of human rights abuses; near-complete failure to move ahead on trade talks; and slow (if any) progress on global governance. Pro-equity actions will have a greater chance of being implemented if the governance mechanisms of international institutions enable poor countries to participate more effectively.

While no one knows how to engineer change, we do know that some factors play a role. Equity-enhancing changes in policies and institutions can come about through government action, informed leadership, and grassroots mobilization. Rigorous and unbiased analysis and research can help inform alternatives, contribute to a more constructive debate and, hopefully, to the adoption of better policies. We see the articles contained in this issue of *Development Outreach* as part of that process, and hope that you will enjoy reading them.

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Addressing Unequal Economic Opportunities

A case study of land tenure in Ghana

MARKUS GOLDSTEIN AND CHRISTOPHER UDRY

INSTITUTIONS EVOLVE. As they do, their impact on the distribution of economic opportunity changes. One of the primary ways in which institutions matter for economic opportunities is their role in defining property rights. These property rights, in turn, determine incentives for investment. Weak rights lower the certainty of reaping the returns. If property rights are not the same for all, the distribution of returns will be skewed to those who have the power to enforce their rights.

We examine this relationship in the context of agriculture in Ghana's Eastern Region. Our work traces the connection from a set of complex and explicitly negotiable property rights over land to agricultural investment and, in turn, to agricultural productivity. Using survey and focus group data, we find that

while the land tenure institutions may have some benefits, they result in drastically lower productivity for those not connected to the political hierarchy (which includes most women).

Land transactions and land rights

IN MUCH OF AFRICA, explicit land transactions—sales, cash rentals, sharecropping—have become more common over recent decades. However, the consensus of the literature is that "the commercialisation of land transactions has not led to the consolidation of land rights into forms of exclusive individual or corporate control comparable to Western notions of private property" (Berry 1993, 104). Instead, land "is subject to multiple, overlapping claims and ongoing debate over these claims' legitimacy and their implications for land use and the distribution of revenue" (Berry, 2001, xxi). Individuals' investments in a particular plot might in turn influence their claims over that piece of land in complex patterns: "individually rewarded land rights are further strengthened if land converters make long-term or permanent improvements in the land, such as tree planting. Land rights, however, tend to become weaker if land is put into fallow over extended periods." (Quisumbing et al., 2001, 55).

In an environment where fertilizer is expensive, land is relatively abundant and crop returns sufficiently low, fallowing is a primary mechanism by which farmers increase their yields. A significant portion of the agricultural land in West Africa is farmed under shifting cultivation, so fallowing remains the most important investment in land productivity—despite the fact that it may weaken land rights.

The complexity and flexibility of property rights in West Africa is apparent in our study area in Akwapim, Ghana. Most of the land cultivated by farmers in these villages is under the ultimate control of a paramount chief and is allocated locally through a matrilineage (*abusua*) leadership. This is not to say other forms of ownership/contracts over land do not exist—sharecropping and other rental contracts coexist, but land allocated through the *abusua* is the dominant form of land tenure.

While individuals may have rights to the use of some land as a result of their membership in an *abusua*, this right does not define which individual member of an *abusua* will cultivate which particular plots. Individual claims over land overlap. Which person ends up farming a plot is the outcome of a complex, sometimes contentious, process of negotiation. Moreover, land rights are multifaceted. The act of cultivating a given plot may—or may not—be associated as well with the right to the produce of trees on the land, the right to lend the plot to a family member, the right to rent out the land, the right to make improvements, or the right to pass cultivation rights to one's heirs. A person's right to establish and maintain cultivation on a particular piece of land, and the extent of her claims along the many dimensions of land tenure are ambiguous and negotiable. As a consequence, "people's ability to exercise claims to land remains closely linked to mem-

bership in social networks and participation in both formal and informal political processes" (Berry, 1993, p. 104).

Land tenure is a political process

THIS GENERAL PATTERN of negotiated access to land through membership in a corporate group is found elsewhere in Ghana, through many parts of West Africa and in some other areas of Africa, although there is considerable variation in the details. Summarizing the conclusions of several studies from across the continent, Bassett and Crummey state: "the process of acquiring and defending rights in land is inherently a political process based on power relations among members of the social group. That is, membership in the social group, is, by itself, not a sufficient condition for gaining and maintaining access to land. A person's status...can and often does determine his or her capacity to engage in tenure building." (Bassett and Crummey, 1993, p. 20)

In our sample, there are a number of individuals (about 26 percent of men and percent of women) who hold an office of social or political power in their village or *abusua*. Typical offices include lineage head (*abusuapanyin*), chief's spokesman (*okyeame*), lineage elder or subchief. These are not formal government positions. They instead represent positions of importance within local political hierarchies. In our initial examinations of the quantitative data, we found that these individuals were much more likely to make the most important investment in this shifting cultivation agrarian system: leaving land to fallow. Indeed, the initial, large difference we found in yields between plots controlled by men and those controlled by women disappeared once we controlled for fallowing. The major variable that explained fallowing was the fact that an individual held an office–office holders, most of whom are men, fallow their land significantly longer than others. Further statistical examination reveals that this is not a result of wealth nor the quality or quantity of land–it is due to their position in the social hierarchy.

This insecure tenure comes with significant costs. For most farmers (i.e. the non-office holders) an additional year of fallowing would be associated with increased steady-state output of between 20 and 50 percent. This is indicative of how the political system of land tenure is leaving large realms of profit unexploited for those who lack the proper connections. A speculative calculation can help to put this local level result into broader perspective. Approximately 434,000 hectares of Ghana's farmland is planted to maize and cassava and located in four Regions where we might expect the land tenure system to be similar. If the yield losses from inefficient fallowing are similar on all of this land, then we estimate the aggregate costs at 198 billion cedis to 292 billion cedis or 1.4 to 2.1 percent of the 1997 GDP. We can take another cut at putting this figure into perspective by looking at the depth of poverty. Using 1998 national household survey data, the poverty gap is estimated at 14 percent of the poverty line (the poverty gap is a measure of the mean level of the poor below the poverty line). We can use this figure to calculate the aggregate poverty gap (i.e. the amount which, if perfectly targeted, would bring all the poor to the poverty line. The productivity gain which would result from increased security in tenure in these four regions would cover approximately 13 to 19 percent of the national poverty gap. Given that maize and cassava are central subsistence crops in Ghana, the poverty implications of improved tenure are decidedly large.

A safety net of sort

This would seem to be a simple case for the formalization of land tenure rights, with careful policy attention to remove the role of political influence from tenure security. However, no institution arises in a vacuum. We took the initial results from our research back to the survey area to discuss them with focus groups. The focus group participants revealed that one of the central roles of the *abusua* based land allocation process was to provide land for those in need. The efficacy of the system in this regard is fairly clear–even the poorer individuals in these communities have some land to farm. However, the exact definition of need was quite ambiguous. Indeed, several focus group discussions led to the argument that fallowing land signalled that one did not need the assistance of the *abusua*. Further statistical investigation seems to support this argument of imperfect information as to the need for land: those connected to political power leverage this power to communicate need without having to continuously cultivate their land. Those less well-connected cannot stop to fallow as often for it would signal that they are no longer in need of assistance.

In the end, this system presents a thorny problem for policy makers, particularly as population pressure leads to shorter fallowing periods. The *abusua* based land system seems to serve as a safety net of sorts, making sure that the everyone who needs land gets at least some. However, the cost associated with this safety net is large, land is farmed inefficiently with large losses of potential profits for those (many of whom are women) not well connected to the political hierarchy which allocates the land.

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This article is based on the Yale University working paper, "The Profits of Power: Land Rights and Agricultural Investment in Ghana." The paper can be found online at http://www.econ.yale.edu/~cru2/pdf/goldsteinudry.pdf

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On "Inequality Traps" and Development Policy

BY VIJAYENDRA RAO

THERE ARE INEQUALITIES IN THE WORLD, among individuals and among groups, that get reproduced across generations. In the *World Development Report 2006* these are referred to as "inequality traps." But how does an inequality trap differ from a poverty trap? Speaking a little facetiously–if a poverty trap describes a situation where "the poor are poor because the poor are poor," an inequality trap would say that "the poor are poor because the rich are rich."

Inequality traps are similar to poverty traps in that they serve to keep people poor and destitute. But they differ from them in that they refer to a reinforcing system of economic, political and social structures that lead to what social scientists have called "durable inequality" (Tilly 1998). Poverty traps tell us about situations where people at the low end of the income

distribution are stuck in a cycle of poverty because a lack of resources generates more resources constraints. Inequality traps, on the other hand, describe situations where the entire distribution is stable because the various dimensions of inequality (in wealth, power and social status) interact to protect the rich from downward mobility, and to prevent the poor from being upwardly mobile.

An easy way to see this is to consider the status of women in patriarchal societies. Women are often denied property and inheritance rights. They also have their freedom of movement restricted by strictly enforced social norms that serve to create separate "inside" and "outside" spheres of activity for women and men respectively. The consequence of this is that girls are less likely to be sent to school, and women less likely to work outside the home. This reduces the options for women outside marriage and increases their economic dependence on men. All this not only makes women earn less than men, it also makes them less likely to participate in important decisions both within and outside the home. In other words men are "rich" while women are "poor."

This nexus of unequal social and economic structures tends to be easily reproduced. If a woman has not been educated and has grown up to believe that "good," "decent" women abide by existing social norms, she is likely to transmit this to her daughters and to enforce such behaviors among her daughters-in-law. Thus an inequality trap is created which prevents generations of women from getting educated, restricts their participation in the labor market, and reduces their ability to make free, informed choices and realize their full potential as individuals. This reinforces gender differences in power that tend to persist over time.

The unequal distribution of power between the rich and the poor –between dominant and subservient groups, helps elites maintain control over resources. Consider an agricultural laborer working for a large landlord. Illiteracy and malnourishment are likely to make him unable to break through the cycle of poverty. But he is also likely to be heavily indebted to his employer which puts him in the landlord's control. Even if there were laws in place that would allow him to challenge his landlord's dictates, being illiterate he would find it particularly hard to navigate the political and judicial institutions that would help him assert his rights. In many parts of the world this distance between landlords and laborers is compounded by entrenched social structures–landlords typically belong to a dominant group defined by race or caste, while tenants belong to a subservient group. Since the members of these groups face severe social constraints from inter-marrying, group-based inequalities are perpetuated across generations.

Economic and political inequalities do not occur in a vacuum. They are embedded within unequal social and cultural institutions. The social networks that the poor have access to are substantially different from those that the rich can access. For instance, a poor person's social network may be primarily geared towards survival with limited access to networks that would link her to better jobs and opportunities. The rich on the other hand, are bequeathed with much more economically productive social networks that facilitate the maintenance of economic rank–for instance parents are able to use their social connections to ensure that their child gets into a good school, or call up a few good friends to make sure that their son gets a good job, while poor parents are more subject to the vicissitudes of chance. Connections open doors and reduce constraints.

Thus, social networks constitute a form of "capital" which

is unequally distributed.

Social networks are closely allied with cultural factors. By "culture" we mean those aspects of life that deal with "relationality"—the relationships among individuals within groups, among groups, and between ideas and perspectives. Subordinate groups may face adverse "terms of recognition" (Appadurai 2004)—the cultural framework within which they negotiate their social lives. One obvious expression of this is explicit forms of discrimination which can lead to an explicit denial of opportunities and to a rational choice to invest less on the margin.

But it can also be less overt. A person born into a low social class or an excluded group may internalize the dominant group's value system. Religious beliefs may help in this process of internalization—women may take on gendered beliefs on their economic and social role, discriminated castes may absorb the view that upper castes have on their "inferior" status. This may also be transmitted via institutionalized mechanisms such as schools—a discriminated race may face a "stereotype threat" where they internalize the view that the dominant race has on their ability to perform in standardized tests, or in occupations that have historically been controlled by dominant groups (Steele 1999). This can affect a discriminated group's "capacity to aspire" (Appadurai)—the better-off are better able to navigate their way towards potentially actualizing their aspirations. It also implies that "voice," the capacity of an individual to influence the decisions that shape their lives, is also unequally distributed and that "effort" and "ability" are not necessarily exogenous (Rao and Walton 2004a, for more on such "inequalities in agency").

Thus, economic, political, cultural and social inequalities are usually correlated and reinforce one another. An individual born a woman or into a discriminated racial group or region is not only more likely to be poorer than someone born into the majority group, he or she is also more likely to be at the receiving end of material and symbolic power structures that restrict their access to economic opportunities, to legal rights, to opportunities to make their voices heard, and to a reduced risk of violence.

This has two important implications for public action:

- from a focus on individuals to a recognition that relational and group-based phenomena shape and influence individual aspiration, capabilities, and agency;
- to provide for debate and decision-making when there are several distinct culturally determined perspectives, and in particular, assure that poorer, subordinate groups have voice and opportunities for redress.

DEVELOPMENT INITIATIVES NEED TO BE SHAPED IN WAYS THAT RECOGNIZE THE RELATIVE DISEMPOWERMENT OF WEAKER OR SUBORDINATE GROUPS IN CULTURAL, ECONOMIC, AND POLITICAL TERMS.

Implications for policy

DEVELOPMENT INITIATIVES need to be shaped in ways that recognize the relative disempowerment of weaker or subordinate groups in cultural, economic and political terms. This approach involves understanding how context matters in ways that are conditioned by such inequalities and the need to design public action in ways that foster greater "equality of agency" with respect to social hierarchies, including those involving public, private and international actors.

Policy design

At the level of the policymaker, a point of departure is the recognition that actions occur within unequal social, cultural and political structures. Since a core concern is the lack of influence or agency of poorer or excluded groups, policy choices to compensate for this are likely to be an important element of strategy.

To understand local conceptions of well-being the recipients of public action need to be engaged as central agents in the formation and implementation of policy. This implies that the theory and practice of development will be more difficult and, necessarily, more participatory. However, it also implies that participation in itself is not a panacea, precisely because of the social inequities inherent within group-based relations. This, consequently, leads to a proposal that should be self-evident, but is rarely put into practice in multi-lateral agencies: social and historical analysis should inform policy design just as much as economic analysis, and they should be placed on an equal footing.

Learning by doing and the incorporation of context

Political and culturally informed public action is not easy. The process requires paying close attention to context in shaping interventions both globally and locally. It therefore argues against the idea of "best practice"—that an intervention that worked wonders in one con-

text would do the same in another. Good interventions are very difficult to design ex-ante. A cultural lens thus teaches us that public action, particularly when it is participatory, aspiration-building and aware of "common-sense", requires an element of experimentation and learning. Ironically the best practice may be the absence of a best practice.

Projects need to be closely monitored and evaluated, not just in terms of their impact but also in the processes that led to that impact in order to understand how to they can be shaped and modified in a manner that matches the diversity inherent in the local cultural context. All projects will make mistakes, but so long as these mistakes are recognized and the lessons from them incorporated into the next stage of design, this helps incorporate common sense into the development process.

A key lesson is that development is not easy. It is, at its core, a political, social and cultural process that requires gradual learning from the ground-up in order to be effective and sustainable. A development culture that forces projects to be completed in 2 or 3 years before they are either rapidly and meaninglessly scaled up, or abandoned, is not conducive to social change or to learning-by-doing.

Shaping institutions to manage difference

The recognition that societies consist of different groups, often structured in hierarchies, with unequal social and cultural capital, suggests that mechanisms of inter-group exchange and deliberation need to be set up in a manner that changes the "terms of recognition." In this area, as in many others, there are no magic institutional solutions. One possibility is to employ "deliberative democracy" as in the participatory budgeting process developed in Porto Alegre in Brazil—but this has some preconditions. The promotion of democracy is key, but in order for democracy to work at the grassroots, it has to be deepened and local institutions need to be transparent even to people at the lowest rungs of society.

Similarly, effective education initiatives may need multicultural designs with curricula that are tailored to reflect the reality and lingua-franca of students rather than of elites who tend to design curricula. Comparable arguments can be made for the design of health projects, commons management, etc. The recognition that sub-groups can often have conflictual interactions leads to the need for effective methods of conflict management—for instance, mechanisms for inter-group dialogue and opportunities for social and cultural interaction, and fair and effective courts that can adjudicate differences and which poor communities can easily access.

International policy and the behavior of external agents

How can international action become more culturally attuned? The issue is most commonly framed in terms of the policies and cultures of international agencies, such as the World Bank, the IMF, and the World Trade Organization, though it also applies to the whole range of external actors, from bilateral donors, to UNESCO, international non-government agencies such as OXFAM and multinational companies. I touch on three areas here:

Supporting development design within countries

The discussion of implications for local public action applies with equal force to the international sphere. Policy design needs to take account of local conditions, including the interaction between culture, power and economic structures. This does not mean eschewing generalization from international experience or giving up the documented lessons of history on economic and social change. Indeed a central function of such agencies should precisely be the sharing of knowledge—by understanding situations and processes by which policies can be made more effective in improving the conditions of the poor. However, the debate over what makes effective policy within a country has to be informed by a process of dialogue and deliberation within the country—rather than the mindless force-feeding of "best practice" guidelines that are little informed by the social and historical context.

International policy design

An Inequality Trap perspective is directly relevant to some areas of international policy. Trade liberalization and foreign investment are typically desirable for income and employment objectives, but the effects of enforced globalization on the living conditions and aspirations of workers can be complex. Typically the diagnostic frame of an inequality trap would not suggest reversing globalization, but strengthening the agency of adversely affected domestic groups to influence their capacity to influence, choose, or gain from the consequential eco-

INEQUALITY TRAPS
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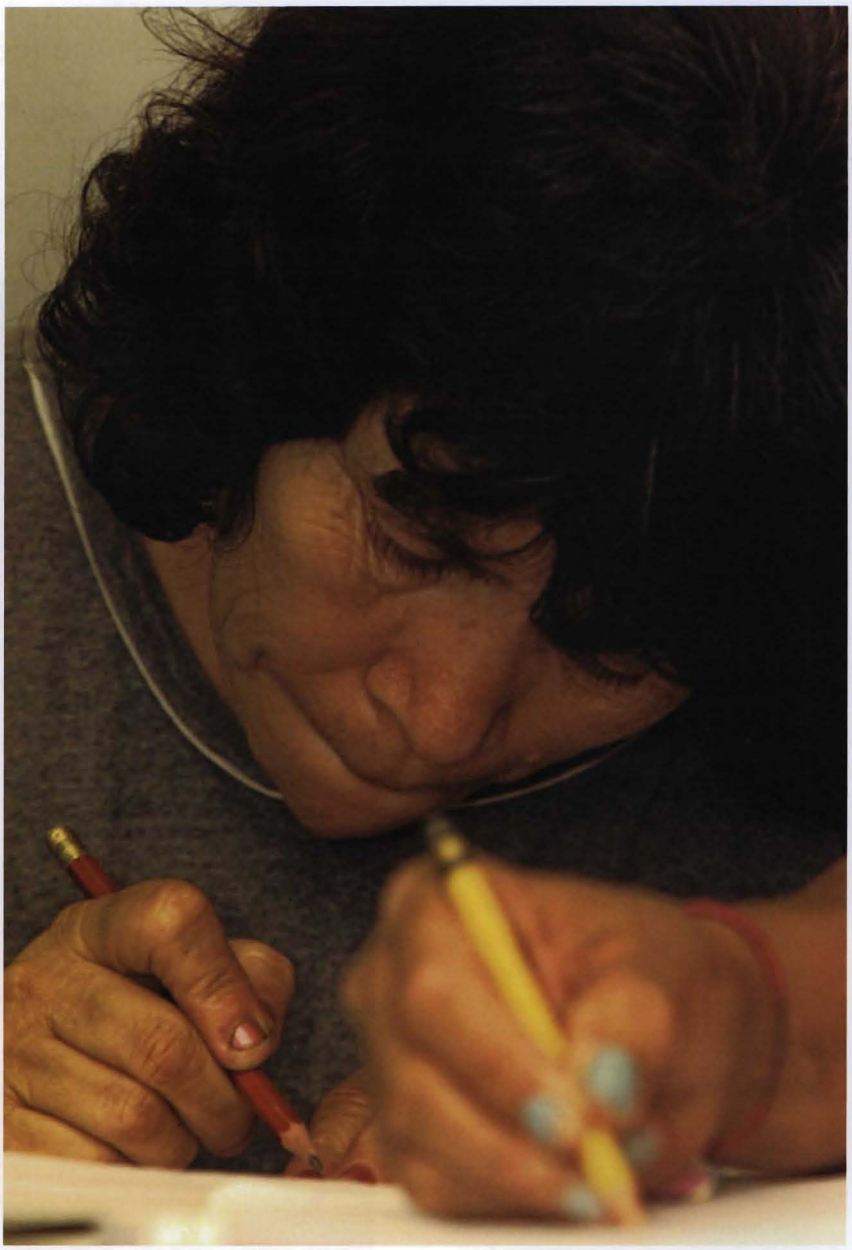
Political Inequality in Latin America

A Historical Perspective

BY KENNETH L. SOKOLOFF

ONE OF THE MOST CRUCIAL DIMENSIONS along which inequality operates is in access to political opportunity. As governments are generally responsible for the design and enforcement of the laws, and have a monopoly of power over certain other important activities in society as well, the distribution of effective influence on government action often has major implications for how a society's resources are distributed across the population, as well as for the pace of economic growth. There are of course many channels through which the preferences of private parties can have an impact, and the

conventional wisdom holds that political inequality is greatest where less transparent informal mechanisms of influence are predominant. However, even in societies that carry out elections, variations in the rules or organization of how votes are cast, who can cast them, and how the candidates on the ballot are selected, can have a fundamental impact on the policy choices that the elected representatives—who in some sense constitute the collective government of the electors—make.



Historical background

THE SIGNIFICANCE of political inequality for long-term paths of economic development is powerfully demonstrated by the historical experience of the societies of the Americas. It is now well understood that factor endowments play a major role in explaining why the great majority of the colonies established in Latin America by the Europeans came to be characterized by extreme inequality. Spain was the first power to make a major project of settling the Americas, and she chose to focus her efforts and resources on areas, such as Mexico and Peru, that seemed to offer the best economic prospects, with large aboriginal populations whose labor could be tapped to extract value from the abundance of natural resources. Enjoying the fruits of their relatively scarce human capital, privileged legal standing, and substantial grants of land and claims on native labor, and concerned with maintaining them, the *creole* population descended from the first waves of European settlers were able to secure stringent limits on further immigration. Inequality in Spanish America, therefore, was rooted in its endowment with a large population of Native Americans, and in the introduction of a relatively small number of people of European descent that composed both the economic and political elite. Extreme inequality also arose in the colonies of the Caribbean and in Brazil, because their soils and climates gave them a comparative advantage in growing sugar and other lucrative crops produced at lowest cost on large slave plantations. With the consequent importation of enormous numbers of slaves, small elites of European descent dominated a population consisting largely of black slaves, and later (after emancipation) non-white freedmen and their descendants. In contrast, the European colonies located in the northern part of North America, which became the United States and Canada, developed with relative equality and population homogeneity, because there were relatively few Native Americans and the climates and soils favored a regime of family farms centered on grains and livestock instead of one of large slave plantations.

Although most societies in the Americas had attained independence and were nominal democracies by the mid-19th century, those with high economic inequality made very different choices from those with low inequality as regards how broadly to extend political influence. The elites in Latin American nations were more successful in obtaining legal frameworks that ensured them a highly disproportionate share of political power than were their counterparts in the U.S. and Canada.

Nearly all of Latin America retained severe limitations on who could vote (at least in secret) well into the 20th century. Even the most progressive Latin countries (namely, Uruguay, Argentina, and Costa Rica) were more than a century behind in the proportion of the population who voted in elections. It is remarkable that as late as 1900, none of the countries in Latin America had the secret ballot or more than a miniscule fraction of the population casting votes. The great majority of European nations, as well as the United States and Canada, achieved secrecy in balloting and universal adult male suffrage long before other countries in the western hemisphere, and the proportions of the populations voting in the former were always higher, often four to five times higher, than those in the latter. Although many factors contributed to the low levels of participation in South America and the Caribbean, wealth and literacy requirements were serious binding constraints. Some societies maintained wealth-based suffrage restrictions until the mid-twentieth century, but most joined the United States and Canada in moving away from economic requirements in the nineteenth century. However, whereas the states in the United States frequently adopted explicit racial limitations (until the constitutional amendments following the Civil War ended this practice), Latin American countries typically chose to screen by literacy. In many nations, such literacy requirements endured, and were effective limitations on who voted, into the second half of the 20th century.

The contrast between the U.S. and Canada, on the one hand, and Latin America, on the other, was not so evident at the outset. Despite the sentiments sometimes attributed to its Founding Fathers, voting in the U.S. was largely a privilege reserved for white men with significant amounts of property until early in the 19th century. At that time, a movement to do away with wealth requirements and extend the right to vote to all white adult men was led by states in labor-scarce frontier areas striving to attract migrants. Their broadening of formal political influence was but one of a set of policies targeted at that goal. It is striking how this context resembles that of Argentina and Uruguay when they introduced similar reforms. In both cases, economic circumstances, not the threat of civil disorder, gave elites the incentive to extend access to privileges and opportunities.

MOST OF LATIN AMERICA DID NOT INVEST HEAVILY IN PUBLIC SCHOOLS OR ATTAIN EVEN MODERATE LEVELS OF LITERACY UNTIL WELL INTO THE 20th CENTURY... THIS FOSTERED THE PERSISTENCE OF HIGH INEQUALITY AND HAMPERED GROWTH.

Unequal political power and its consequences

THE HISTORY OF THE AMERICAS also provides ample evidence of how differences (or changes over time) in the distribution of political power fed back on other public policies and the distribution of access to economic opportunities in ways that affected long-run paths of institutional and economic development. Investments in public schools provide a telling example. Although most New World societies were so prosperous by the early-19th century that they had the material resources to support the establishment of a widespread network of primary schools, only a few did so on a scale sufficient to serve the general population before the 20th century. The exceptional societies, in terms of leadership in investing in institutions of primary education, were the U.S. and Canada, and it is not coincidental that the so-called common school movement got under way in the 1820s in the U.S., following closely after the movement to extend the franchise. Canada lagged the U.S. slightly in extending the franchise and in the movement for common schools. The wave of laws that strongly encouraged or required localities to establish free schools that were open to all children and supported by general taxes put these societies on an accelerated path of investment in educational institutions that served a broad range of the population and made them the most literate in the world.

The importance of public education

MOST OF LATIN AMERICA did not invest heavily in public schools or attain even moderate levels of literacy until well into the 20th century. Indeed, in 1900 literacy rates for those born in prosperous and relatively progressive Argentina were simply on par with those of nonwhites in the U.S. Multivariate statistical analyses indicate that lower per capita income provides but a partial explanation of the pattern, and highlight the association of inequality with low literacy. Argentina, Chile, and Uruguay, began to boost their investments in providing broad access to primary schools and raising literacy at roughly the same time that they intensified their efforts to attract migrants from Europe, and before their suffrage reforms, but most Latin American nations made only slow progress until they liberalized the

franchise. It is notable, moreover, that although these societies were extremely frugal as regards supporting primary schools, they have a history tracing back at least as far as the early 19th century of relatively generous public support for universities and other institutions of higher leaning geared toward children of the elite. Where the wealthy enjoyed disproportionate political power, they were able to procure schooling services for their own children and to resist being taxed to underwrite or subsidize services to others. Although the children of the elite may have been well schooled in such polities, most of the population was not so fortunate. No society realized high levels of literacy without public schools, and this likely fostered the persistence of high inequality and hampered growth over the long run.

The deferring of public investment

THIS PATTERN of elite-dominated governments deferring on public investments that would have broadened access to economic opportunities and stimulated growth seems to have extended beyond schooling. In the U.S. and Canada, with only a few brief exceptions during and after major wars, local governments were the largest component of the overall government sector throughout the 19th century. This is especially striking in that the main priorities of local governments were schools, roads, and other infrastructure that generate broadly distributed social returns. Moreover, their heavy reliance on the property tax, together with their large share of the government sector, made for a rather progressive tax structure when considering all levels of government together. In both the U.S. and Canada, property and inheritance taxes accounted for the bulk of the revenue collected by the government sector overall through the early decades of the 20th century. In stark contrast, despite holding the same authority to levy taxes and the same responsibilities for basic schooling and local infrastructure as their North American counterparts, local governments in Latin America never developed into a significant provider of public services. In these societies local governments were stunted, and both power and activities were concentrated in centralized government structures that relied almost exclusively on indirect taxes and placed less of a tax burden on elites with higher levels of wealth. It was only later in the 20th century, when returns to schooling grew, when import-substitution policies sharply reduced the revenues that could be captured from imports, and when the broadening of political influence took hold, that government public finance and other policies began to change in more progressive directions.

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This article draws from the more extensive treatments of these issues provided in Stanley L. Engerman and Kenneth L. Sokoloff, "Factor Endowments, Inequality, and Paths of Development Among New World Economies," *Economia*, 3 (Fall 2002): 41-102; Stanley L. Engerman and Kenneth L. Sokoloff, "The Evolution of Suffrage Institutions in the Americas," *Journal of Economic History*, 65 (December 2005): 891-921; and Kenneth L. Sokoloff and Eric M. Zolt, "Inequality and the Evolution of Institutions of Taxation in the Americas," in *New Perspectives on Latin American Economic History*, Sebastian Edwards, Gerardo Esquivel, and Graciela Marquez, eds., (Chicago: University of Chicago Press): forthcoming 2006.

The Scandinavian Model and Economic Development

BY KARL OVE MOENE
AND MICHAEL WALLERSTEIN

Praised but dismissed

TODAY THE EUROPEAN UNION looks to the Nordic countries in search of role models for how low inequality can be combined with good economic performance (Herald Tribune, 17.9.05). Yet, in spite of recent praise, the Scandinavian model is still dismissed as an infeasible model for developing countries. Based on generosity towards the poor and protection against market competition, the argument goes, the Scandinavian model is only possible in consensual, homogeneous and affluent societies with an extraordinary commitment to equality. In third world countries that are conflict-ridden, heterogeneous, and poor, the model has no relevance, it is claimed.

In Moene and Wallerstein (2005) we present a more agnostic view, which we summarize below. We argue that the Scandinavian model is not an end state, but a development strategy. Scandinavian consensus, homogeneity, and affluence are products of the model, not prerequisites. We claim that wage compression attained through highly coordinated wage-setting was the central policy. As we see it, the economic benefits of wage compression would be as significant in South Africa, Brazil, or India today as they were in Scandinavia between 1935 and 1970. The political feasibility of a policy of wage compression, however, is open to doubt. Hence our agnosticism regarding whether or not the Scandinavian road to affluence can be repeated.

Wage compression institutionalized

SOCIAL DEMOCRATIC GOVERNMENTS came to power in Sweden and Norway in the midst of the Great Depression committed to reducing unemployment and alleviating poverty. Both governments increased government spending on policies such as unemployment benefits, public housing, and agricultural price supports.

In retrospect, the key innovation was not the Keynesian policies that were adopted in the 1930s, but the institutional response to the problem that threatened the recovery program. To keep the increased government spending from raising the wages of insiders in the labor market, rather than increasing employment, wages were taken out of market competition and out of the hands of local unions.

The attempt to coordinate wages by centralized wage setting was the start of a gradual process of wage compression. Over

time it generated the most egalitarian distribution of wages and salaries in the world. In the 1950s, wage compression was adopted as an explicit goal of the unions in both Norway and Sweden under the title of "solidaristic bargaining."

Equity as a byproduct of efficiency?

IN THE 1950S, two Swedish trade union economists, Gösta Rehn and Rudolf Meidner, argued that equalizing wages across Swedish firms and industries would promote economic development by forcing wages up in low-productivity firms (or industries) and keeping wages down in high-productivity firms. In a decentralized bargaining system, wages vary according to the productivity of the firm and the industry. In a centralized system, in contrast, wages are relatively insensitive to the profitability of the enterprise.

On the one hand, industries with low levels of productivity are prevented from staying in business by paying low wages with a centralized system of wage determination. On the other hand, workers in industries with high levels of productivity are prevented from capturing much of the productivity differential in the form of higher wages. By reducing profits in low-productivity firms and increasing profits in high-productivity firms, labor and capital would be induced (or coerced) to move from low productive to high productive activities, increasing aggregate efficiency as well as improving equality (Moene and Wallerstein 1997, Agell and Lommerud 1993).

A study of productivity growth in Sweden by Hibbs and Locking (2000) finds evidence that the gain in efficiency was substantial and the cumulative impact on the distribution of wages and salaries was large. Solidaristic bargaining extended the principle of "equal pay for equal work" from one industry to the entire economy, and then moved beyond the demand for "equal pay for equal work" toward the goal of "equal pay for all work."

Structural change and generous welfare spending

MANY OTHER FEATURES of the Scandinavian model follow from the policy of wage compression. Wage compression directly encouraged the movement of capital from less productive to more productive activities, but the effect on the incentives for workers to change occupations was mixed. While wage compression would increase job loss in industries with low productivity and job creation in industries with high productivity, employers in highly productive firms lost the ability to attract workers with the offer of higher pay. The government, unions and employers responded to the problem with an array of active labor market policies that subsidized the movement of workers from one industry to another with training programs and grants to cover moving expenses.

To keep highly productive employers from undermining

the policy of wage restraint by offering workers generous benefits (which were harder than wages to monitor at the central level), the Swedish employers' confederation lobbied the government to nationalize the provision of health care and pensions (Swenson 2002).

Moene and Wallerstein (2001, 2003a) show that expenditures on social insurance against the loss of income due to unemployment, disability, sickness and occupational injury rise as wage inequality declines. If insurance is a normal good, a policy that raises the income of the majority of workers with below average incomes increases the political demand for social insurance policies. The compression of wage differentials, in sum, had far-reaching economic and political consequences, one of which, we argue in the next section, was to increase the pace of economic development.

The pace of economic development

IN MOENE AND WALLERSTEIN (2005) we explore the potential importance of wage compression for economic development within a dual model of industrialization. The central aspect of development that model incorporates is that the growth of a modern sector at the expense of traditional production depends on the size of the market for modern goods.

The model distinguishes between modern and traditional sectors depending on the technology they apply. While old technologies are assumed to have decreasing returns to scale, new technologies are assumed to have increasing returns. Increasing returns to scale imply that the profitability of modern plants depends on the size of the market. The dependence of the growth of the modern sector on the size of the modern sector creates a feedback loop. The result may be a poverty trap, in which growth fails to occur, or sustained development in which initial growth of the modern sector encourages further modern sector growth until the traditional sector disappears.

Whether the economy develops or not, depends on the profitability of modern production. Modern employers must receive a minimum share of the surplus to be willing to invest. This share would decline as modernization goes on as profitability increases with the size of the market.

One obstacle to modernization was therefore strong local unions whose wage premiums restricted the expansion of the most productive sectors. Large wage differences between the modern and traditional sectors could therefore block economic growth. Reducing the share of surplus received by relatively privileged workers, we suggest, was the essence of the social democratic development strategy.

Essentially, centralization took wage setting out of the hands of the unions representing relatively high-paid workers and put wage setting in the hands of leaders of the labor movement as a whole. Thus the social democratic approach was not to ban unions in order to raise profits. On the contrary the strategy was to strengthen unions as institutions and to structure collective bargaining in a highly centralized manner that reduced the influence of highly paid workers in the wage setting process and increased profits.

Ends against the middle

WHAT MAKES THE SCANDINAVIAN experience exceptional was that the policy of wage compression was voluntary, not coerced, and implemented by a union movement that included as members many of the high-wage workers whose wages would be restrained in the name of greater equality. Thus, the great challenge faced by those who would apply the Scandinavian lessons in the third world today is political. How can a democratic political movement with close ties to the unions implement a development strategy that centers on wage restraint?

One of the central groups who supported centralization in the 1930s and 1940s and solidaristic bargaining in the 1950s and 1960s were the employers (Swenson 1989, 1991). Employers much preferred to bargain with the "sensible" leadership of the union confederations, rather than with the militant leadership of the shop floor union bodies. Moene and Wallerstein (1997, 2003b) demonstrate that employers may be able to increase aggregate profits by reducing wage inequality relative to the wage schedule associated with decentralized bargaining and even relative to the wage schedule associated with a competitive labor market where employers set wages unilaterally.

The other important group that supported the policy of wage compression was the leadership of unions of low-wage workers. Since the union movement was encompassing, both low and high wage earners had influence in union policy. While the policy of wage compression was controversial in unions of high-wage workers, it was enthusiastically supported by unions of low-wage workers. Thus, the political coalition that prevailed in the 1950s and established the pattern of solidaristic bargaining that was to last until the 1980s was comprised of the low-wage unions and employers.

High paid unions were prevented from leaving the centralized negotiations by the threat of lockouts. It is unlikely that the low-wage unions and the leadership of the union confederation would have been able to force the high-wage unions to accept an egalitarian wage policy without the backing of employers and the threat of lockouts against recalcitrant unions.

Scandinavian exceptionalism?

WE DO NOT BELIEVE that Scandinavian workers are inherently more egalitarian than other workers. Rather, our belief is that a preference for greater equality is widespread. The preference for greater equality can only be acted upon to the extent that wages are set centrally. When wages are set at the plant level, for example, wage compression can only occur within the plant. When wages are set at the industry level, wage compression occurs within the industry. When wages are set at the

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Equality and Efficiency

What History Teaches Us about the Trade-Offs

BY PETER H. LINDERT

TO PROMOTE GROWTH, *must* a developing country adopt policies that make incomes more unequal? Do countries that adopt pro-growth strategies *tend to choose* policies that widen the gap between rich and poor within the country?

History and common sense say "no" to the first question about trade-offs. It has never been true that the only way to improve efficiency and raise GDP per capita is to accept greater inequality, and what we know about the political process says that no country must accept such a choice today (at least not yet). On the second question, history suggests an intriguing long-run evolution. In the earliest phases of economic development, the countries achieving greater growth

were indeed those choosing institutions that rewarded rich groups. Yet midway through the evolution—around the year 1800 for the North Atlantic region—the countries leading the growth race became those that implemented more egalitarian (and pro-growth) policies, a choice that was always available and still is available today.

The task of judging whether policy choices must trade, or have chosen to trade, between equality and efficiency is complicated by the role of national luck and by the multiplicity of policy options. Prosperity and equality come more easily for countries having a lucky historical geography, in the form of natural resources, safer disease environments, previously open spaces, and distance from war zones. This is one reason it has been hard to distill policy lessons from the growth and inequality outcomes we observe around the globe.

Which policy levers?

THE OTHER COMPLICATING FACTOR prolonging debate over policy trade-offs is that there are so many levers that the political process push or pull in choosing policies and institutions. With so many forces operating at once, it is not surprising that the debate over a trade-off between equality and efficiency has continued for so long. Some have emphasized policies that can raise efficiency and GDP by redistributing in favor of the rich, while others have emphasized policies that raise efficiency and GDP by favoring the poor.

The classic mechanism that supposedly linked inequality to growth related to savings rates. Keynes, Kaldor and others believed that the rich had a higher marginal propensity to save, so that redistributing from poor to rich would raise national savings and the growth rate.

The opposing view was put most clearly in the 1970s, led by the World Bank book *Redistribution with Growth* (Chenery, Ahluwalia, et al., with a fresh revisiting of the same issues and ideas in the *World Development Report 2006*). That pioneering study identified several policy levers that governments could use to raise both the growth rate and the share going to the poor. The list of egalitarian policy options included one direct form of redistribution, namely rural land reform, later given the softer name "access to infrastructure and land." Aside from that, the featured egalitarian growth options were, and are, available using these policy tools:

- human investments for those who are credit-constrained, especially children and the poor;
- lifting credit constraints for the poor and small enterprises; and
- fair competition in all markets.

ELITIST FINGERPRINTS

SEVEN POLICIES FOR DEVELOPING COUNTRIES THAT CUT GDP FOR THE BENEFIT OF THE WELL-OFF

1. DENY TAX FUNDING THAT WOULD MAKE PRIMARY EDUCATION AFFORDABLE FOR THE POOR
2. DENY TAX FUNDING THAT WOULD GIVE EQUAL EDUCATION TO GIRLS
3. BIAS EDUCATION SUBSIDIES IN FAVOR OF UNIVERSITY STUDENTS AT THE EXPENSE OF PRIMARY SCHOOL STUDENTS
4. BIAS HEALTH SUBSIDIES TOWARD HIGH-BUDGET CARE FOR THE ELDERLY AND WELL-OFF, AT THE EXPENSE OF PREVENTATIVE AND OUT-PATIENT CARE FOR THE YOUNG AND THE POOR
5. PROTECT AGRICULTURE AGAINST COMPETITION, WITH THE GAINS INEVITABLY GOING TO LANDOWNERS
6. PROTECT AN INDUSTRIAL SECTOR AGAINST COMPETITION, CREATING INDUSTRY RENTS THAT ACCRUE TO THE PRIVILEGED
7. OVER-PROTECT SENIOR WORKERS AGAINST DISMISSALS, LEADING TO LOWER HIRING OF NEW WORKERS

A political reality check

WHAT WE KNOW about the political process rejects the first version of the trade-off question, the one asserting that policymakers *must* trade away some equality to get more efficiency. Ask yourself: What countries do you know that have exhausted all opportunities to promote both growth and equality? Even the European welfare states, which have pressed relatively hard to equalize incomes, still sacrifice both efficiency and equity by protecting agricultural landholders at the expense of food purchasers and general taxpayers. They also protect senior high-paid workers at the expense of younger job entrants. Similarly, the United States protects agricultural landholders while raising the cost of food, and it subsidizes (civilian) medical care only for those residents who have already survived to the age of 65, at the expense of public care for the young and the poor. Developing countries have passed up even more policy opportunities to promote growth through the policies listed above. In economics jargon, no country's government has ever reached the policy possibility frontier by exhausting every chance to improve both equality and efficiency.

Hints from long-run history

TO JUDGE THE SOFTER IDEA that countries *tend to choose* between equality and efficiency, even if they don't need to, we should turn to some hints from history. Economic history has begun to reveal a long run-pattern of policy choices. Before about 1800, the policy and institutional changes that most advanced growth in the North Atlantic region were ones that did raise inequality. A key to the emergence of Northwest Europe as a world leader was the royal granting of more secure property rights to merchants and creditors. This was the world that Adam Smith saw, when emphasizing private freedoms as the key to progress. Thus growth appeared in places that experienced rising inequality, as the merchants and investors prospered. The same securing of private property rights, raising efficiency at the expense of equality, has proved crucial in countries that are restoring order in the world's worst war zones, and in China's industrial reforms of the late 1980s and early 1990s.

But as the North Atlantic economy grew and became more skill-intensive after about 1800, the leader countries came to be those that fostered the accumulation of human capital and had distributed land more equally. American history fits this mold, even though the United States has always been a country resisting progressive social transfers to the poor. This country advanced by being a pioneer in tax-funded primary schooling, and by distributing new lands relatively equally.

On the equality-efficiency trade-off, many have misread British history. One often hears the view that Britain's growth suffered in the welfare state era between the 1940s and 1970s, in contrast to an acceleration of growth during the inegalitarian Industrial Revolution era (traditionally put at 1760-1830). There are several things wrong with this common view. Over all of British history, the best growth rate was in that income-leveling era of the welfare state, between the 1940s and the 1970s. In the earlier era of rising inequality during (and before) the Industrial Revolution, growth rates were slower and did not accelerate at all. In fact, Britain's policies in that era were anti-growth, such as the Corn Laws and special taxes on business contracts and industrial goods.

Thus the only historical settings in which countries clearly tended to choose efficiency at the expense of equality were those early phases when property rights were first being secured. The long subsequent history features growth under more egalitarian policies.

Econometrics cannot decide

A recent econometric literature has tried valiantly to see if countries tend to choose between efficiency and equality in recent times, by regressing the level or growth of GDP per capita on the level or growth of inequality, while controlling for other things. This literature has hit some limits, even though it reveals some suggestive patterns.

While the scientific standard of these studies is high, the tests have a basic limitation: Inequality is not a policy variable, so its movements offer no guide to what policy has done. Rather it is an outcome of everything that affects the economy, not just the policies that governments implement.

That said, the econometric literature has indeed suggested some interesting patterns. One is that growth may be badly served by sudden changes in inequality in either direction (Banerjee and Duflo 2003). Another is that growth may be helped by letting the gap between rich and middle get wider, but would be damaged by a wider gap between middle and poor (Voitchovsky 2005).

Finding the fingerprints of anti-poor anti-growth policies

THE FACT THAT NO COUNTRY has ever exhausted its policy options for egalitarian growth alerts us to a new way to search for policies serving both equality and efficiency. We need only find cases where the unequal sharing of political power has caused countries to adopt inefficient and inegalitarian policies. The procedure is straightforward: studying the specifics of a country's policies, just find cases where the *Redistribution with Growth* prescriptions have not been followed. Such discoveries are not difficult for developing countries, either today or in the past. Just look for fingerprints like those illustrated in the accompanying box, and reverse those policies to serve both equality and efficiency.

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Footnote 1: Specifically, this means having a higher ratio of (Public tertiary-education expenditures per pupil) / (public pre-primary + primary expenditures per child of primary-school age) than prevails in the core OECD countries. See Lindert, "Voice and Growth."

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SOCIAL EQUITY IN CHINA

Building a "Xiaokang" Society in an All-Round Way

BY LU MAI AND CALLA WIEMER

THE CHINESE LEADERSHIP under President Hu Jintao and Premier Wen Jiabao has committed itself to the "all-round building of a *xiaokang* (or moderately well-off) society." The term *xiaokang* has its origin in the classic *Book of Songs* and was memorialized by Deng Xiaoping as that stage of development lying between basic needs satisfaction and true prosperity. Twenty-five years of reform and opening have brought *xiaokang* status to a portion of China's population. The task now is to bring it to those left behind as others, under Deng's dictum, "got rich first."

The official Chinese press is rallying public opinion to the cause. The Gini coefficient hitting 0.45 has been held up as a "yellow alert" and the 74,000 "mass incidents" that occurred in 2004 have been marked as evidence of the threat to social stability posed by mounting inequities. To bring about the desired all-round *xiaokang* society, nothing short of a shift in the form and function of government is called for, according to the *China Human Development Report, 2005* (see References). This report lays out a detailed proposal for the transformation that calls for a more transparent and participatory government to go hand in hand with a reorientation of the government's role in society from engineering economic development and investing in physical capital to providing public services and investing in human capital.

Two kinds of inequity

TWO DIMENSIONS of social inequity are the main cause for concern. One is the urban vs rural dimension which carries over to a gap between rural migrants to cities and native urbanites; the other is the coastal vs inland dimension. Disparity in both dimensions is the product of a complex array of historical forces, government policies, and other factors.

The vast pool of low productivity labor that today burdens the rural areas is a legacy of the Maoist development strategy. That strategy involved government mobilization of high national savings for investment in heavy industry. The counterpart of high savings was low consumption enforced in significant part by blocking migration to the cities where higher standards of living prevailed and where in any case the pattern of industrialization afforded little job creation. The household registration system adopted in the 1950s to cordon off the rural population is only gradually being relaxed. Movement across the rural-urban divide butts up against a system of urban entitlements with regard to education, health care, pensions, and other benefits extension of which to outsiders is simply unaffordable.

Coastal vs. inland disparity is also deeply rooted. The process of reform and opening was spearheaded on the coast with preferential treatment granted to engage in trade, host foreign investment, and generally develop a market economy. Inland regions were hindered in their transition not only by delayed policy relaxation but by a legacy of bigger more entrenched state enterprises that remained shielded from market discipline to protect vested interests. Of course too, the coast has a natural geographic advantage in conferring ready transportation links to the outside world and ready economic links to Hong Kong and Taiwan.

Positive results notwithstanding inequity

INCOME DISTRIBUTION IN CHINA at the outset of reform and opening was characterized by low inequality within, but substantial inequality between, rural and urban areas. Overall inequality actually narrowed in the early 1980s as rural incomes shot up faster than urban incomes at the outset of reform. The national Gini coefficent fell to below 0.3. But then the tide shifted and the Gini pushed upward again through the 1990s as rural reform exhausted its potential to raise living standards in the countryside and foreign trade and investment led an economic boom in coastal cities. The ratio of urban to rural per capita income in monetary terms now stands at around 3.2, and jumps to above 4 if non-pecuniary entitlements are taken into account. This is a very large gap by international standards.

Judgment as to the state of social equity must rest on more than just income distribution, however. On broader human development grounds, China has long held claim to a profile resembling that of a middle income country even as its per capita GDP placed it squarely within the low-income ranks. The positive side of the Maoist development strategy was its emphasis on broad based rural public health. This had the effect of raising life expectancy to a respectable 68 years, an achievement that has been only incrementally furthered under more than two decades of reform and rapid economic growth to bring life expectancy to 71 years now. Underlying this slight increase nationally, however, the rural-urban gap in life expectancy has widened in consequence of deteriorating rural public health services. At the same time though, rural areas have seen an increase in school enrollment rates under a government policy to institutionalize 9-year compulsory education nationwide. On balance then, the mix of improved rural educational attainment and expanding rural-urban gaps with respect to per capita income and life expectancy has resulted in a marginal decline in the rural human development index relative to its urban counterpart. By contrast, inter-regionally the human development index has shown a narrowing trend due to reduced disparity in both life expectancy and education components.

While income disparity has inevitably, albeit perhaps to a worrisome degree, increased during the era of reform and opening, the effect of the generally rising tide has been to rescue unprecedented masses of humanity from poverty. By the World Bank's reckoning using a standard of US$1 of income per day, 400 million Chinese have been lifted from poverty over the last 25 years. That said, 150 million remain to be

brought in tow. And if the bar is set higher than this most minimal of standards to the *xiaokang* level, the numbers still to be reached become much greater.

Challenges and goals

THE CHINESE GOVERNMENT has set ambitious goals and implemented supporting policies in the effort to overcome poverty and dispel inequity. Some interim targets have been met, for example with respect to children's health indicators, and China is well on the way to meeting most of the Millennium Development Goals for the year 2015. Other targets have thus far been elusive, notably with respect to rural sanitation and public spending on education which remains below 4 percent of GDP. The stage is now being set to move more aggressively.

To achieve the goal of building a *xiaokang* society in an all-round way, the *China Human Development Report, 2005* proposes three guiding principles be adopted in policy-making. First, policies aimed at achieving social equity should be market-based. In particular, it is critical that the labor market be made to function more efficiently in order to stimulate the employment growth necessary to absorb the rural under-employed into productive non-farm jobs. This means unifying the labor market and dismantling barriers to mobility, most critically the household registration system that blocks the rural population from obtaining jobs in cities. Further, development of the informal sector and entrepreneurship should be fostered. Credit is essential for this, and in that vein entry to the financial services sector should be relaxed including accommodating international organizations and charities to engage in lending to small business under appropriate regulation and supervision.

WHILE INCOME DISPARITY HAS INEVITABLY INCREASED DURING THE ERA OF REFORM AND OPENING, THE EFFECT OF THE GENERALLY RISING TIDE HAS BEEN TO RESCUE UNPRECEDENTED MASSES OF HUMANITY FROM POVERTY.

Second, the report argues that China should increase public spending on social welfare programs. Given the realities of China's huge population and low per capita GDP, standards must be modest if broad applicability is to be achieved. With respect to education, while administration should rest with the localities, provinces must bear responsibility for ensuring adequate fiscal support and the center should aid those provinces unable to meet this responsibility. Education at the primary level should be free and compulsory. Special schools for migrants should be allowed to operate as a stopgap until urban public schools can build the capacity to absorb the influx. Finally, the curriculum should be reformed so as to approach education not as mere impartation of knowledge but as the building of capabilities and the laying of foundations for lifetime learning. With respect to health care, the government's focus should be on public health and disease prevention aimed at such threats as AIDS, tuberculosis, and schistosomiasis. Basic subsidized health care should be made available to the poor, but beyond that responsibility must be borne by patients themselves with government acting mainly to guide development of efficient private systems of health care delivery and insurance. As for social security, the focus of public subsidies should be on poverty alleviation. Government should reduce its support of social insurance for the well-to-do. Endowment insurance for retirement of urban workers should be underwritten mainly by individuals and employers. Farmers depend on their land for security in old age. Those who lose it to development should be compensated in part with pension plan coverage paid for by the land acquirers.

Third, the report recommends that the shift in fiscal spending take place within an overarching context of promoting human development as the starting point for social equity. This will require a reorientation of government function toward providing public services and away from managing capital formation. In support of a public service orientation of government, the following are directions that should be taken: foster mass participation in public affairs and the decision-making process, and in particular develop channels for the poor and disadvantaged to express their views and defend their interests; enhance transparency and reduce corruption by among other things making government salaries public information and monitoring the assets of public servants; uphold the rule of law, whereby the law is to apply equally to all citizens and government is to operate under the dictates of the law, and develop a rights culture; encourage charitable activity through the expansion of non-government organizations; and build government administrative capacity and responsiveness to the public interest.

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China Human Development Report, 2005: Towards Human Development with Equity. The report has been prepared by the China Development Research Foundation and published by the UN Development Programme. It represents the first China Human Development Report to be prepared by a Chinese organization.

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Tackling Roma Exclusion in Europe

BY DENA RINGOLD

The launch of the Decade

ON A SNOWY DAY in Sofia, Bulgaria, in early 2005 nine heads of state made a remarkable commitment to tackle one of Europe's longest-standing and most pernicious poverty issues. In the presence of Roma leadership and the international community, the governments of Central and Southeast Europe launched the Decade of Roma Inclusion, 2005-2015, a ground-breaking effort to overcome centuries of entrenched poverty and discrimination of one of Europe's most vulnerable populations.

Roma are a global ethnic minority with origins in northern India. They have no historical homeland and live in nearly all countries of the world, with the largest concentrations in Central and Eastern Europe. Roma are diverse, comprising multiple subgroups based on language, history, religion, and occupations. Despite popular stereotypes of nomadic Roma caravans, most in Central and Eastern Europe have settled—or were forcibly settled—over time, some under Ottoman rule, and others more recently during the socialist period.

With the enlargement of the European Union on May 1, 2004, Roma became one of the largest, poorest, and fastest growing minorities in Europe. The total Roma population in Europe is estimated at between 8 and 12 million, roughly 2 percent of the 450 million people who live in the enlarged European Union. Approximately 10 million Roma live in the countries of Central and Eastern Europe, of which nearly 5 million in the new member states of the European Union and in Bulgaria and Romania which are scheduled to join the EU in 2007.

The scale of Roma poverty and exclusion is staggering. Roma comprise deep pockets of poverty within middle income countries in Europe. In Serbia in 2003 over 60 percent of Roma were living in absolute poverty—in comparison with 6 percent of the general population (the poverty line is based on a monthly adult equivalent consumption of Dinars 3,997 for 2003). In 2000, nearly 80 percent of Roma in Bulgaria and Romania were living on less than $4.30 per day, in comparison with 37 percent of the total population of Bulgaria and 30 percent of Romania. In Hungary, 40 percent of Roma were living under this line, in comparison with 7 percent of the total population.

Disparities in living conditions are pervasive. In education, as many as 90 percent of Roma in some countries do not complete primary school. Of those children who are in school, between 50-85 percent of Roma children across countries attend schools intended for the mentally and physically disabled. In health, life expectancy for Roma is as much as 10-15 years lower than for others.

Why now?

ROMA HAVE BEEN AMONG Europe's poorest and most marginalized for centuries. Why have governments and international organizations opted to highlight Roma inclusion as a priority now? There are three main reasons.

First, political liberalization and increased media freedom following the collapse of the iron curtain in 1989 increased information and raised public awareness of the dire situation of Roma, including emerging human rights violations and humanitarian concerns. While the transition brought new opportunities for ethnic minorities, including Roma, to express their identity and participate in society, it also led to the emergence of extremist politics and avenues for public expression of hatred against Roma.

Second, living conditions of Roma have deteriorated disproportionately compared to other population groups. Many Roma were affected by restructuring following the economic transition in the early 1990s. They were often the first to be laid-off from jobs, and have been most persistently blocked from re-entering the labor force due to low skill and education levels, and discrimination. As a result, many Roma have fallen into a vicious cycle of poverty and exclusion which has kept them from the opportunities presented by transition and EU accession.

Third, Roma issues have gained increasing international attention. Deteriorating conditions within many Roma communities caught the attention of international organizations such as the UNDP, the Council of Europe, and the OSCE, as well as NGOs including the Soros Foundation, Save the Children, UNICEF, and the World Bank.

Most significantly, Roma issues were integrated into the European Union accession process. In 1993 attention to Roma issues was adopted as part of the Copenhagen criteria for accession. In order to meet these criteria, the countries built institutions and legislative mechanisms to address Roma issues. The European Commission made available pre-accession financial support for Roma projects and has encouraged the countries which have joined the European Union to make use of EU grant funds to support Roma inclusion.

The Decade of Roma Inclusion is a political commitment by countries to reduce disparities in key economic and human development outcomes for Roma through implementing policy reforms and programs designed to

THE LAUNCH OF THE DECADE OF ROMA INCLUSION

ON FEBRUARY 2, 2005, the governments of Bulgaria, Croatia, the Czech Republic, Hungary, FYR Macedonia, Romania, Serbia and Montenegro, and Slovakia declared:

Building on the momentum of the 2003 conference, "Roma in an Expanding Europe: Challenges for the Future," we pledge that our governments will work toward eliminating discrimination and closing the unacceptable gaps between Roma and the rest of society, as identified in our Decade Action Plans.
We declare the years 2005–2015 to be the Decade of Roma Inclusion, and we commit to support the full participation and involvement of national Roma communities in achieving the Decade's objectives and to demonstrate progress by measuring outcomes and reviewing experiences in the implementation of the Decade's Action Plans. We invite other states to join our effort.

The countries selected four priority areas for the Decade—education, employment, health, and housing—and three cross-cutting themes: income poverty, discrimination, and gender. Each country has developed an action plan that specifies the goals and indicators that they plan to achieve in these areas during the coming ten years. The Decade runs in parallel with the Millennium Development Goals.

break the vicious cycle of poverty and exclusion. Each of the participating countries has adopted a national action plan, defining the outcomes in education, health, employment, and housing that it plans to monitor during the Decade. Roma participation is a core aspect of the Decade. One of the lessons of earlier efforts to support Roma inclusion is that Roma involvement is central to project success.

An important objective of the Decade is improving the database for monitoring progress. Currently limited data on Roma exist because of difficulties of defining Roma as a group, identifying Roma in surveys, as well as privacy legislation in many countries which prevents official collection of ethnic data. Each country has identified indicators which it will use to measure progress in reaching its goals during the Decade. Monitoring these outcomes will require a combination of designing and implementing new surveys, and upgrading existing ones to ensure that Roma are effectively included. The UNDP has been supporting these efforts through implementing a cross-country baseline survey and convening a data expert's group for sharing information.

The Roma Education Fund

THERE IS CONSENSUS among Roma leaders, policy makers, and researchers alike that improving Roma education is an essential starting point for breaking the poverty cycle. In tandem with the Decade, a new Roma Education Fund was established with the support of the international community, including the World Bank. The Fund aims to build on past initiatives to support policy change in education, by drawing on the lessons of local NGO projects.

For example, there have been a number of successful pilots in the area of preschool education for Roma, including initiatives which involve parents in the classrooms, and introduce Roma teachers' assistants to overcome language barriers and bridge between school and community. The Fund will draw upon these successes, and assist governments in identifying the policy

THE ROMA EDUCATION FUND

The Roma Education Fund opened its doors in Budapest in August 2005. It is overseen by a Board of Directors comprised of representatives of its major contributors—including the World Bank, the Open Society Institute, the European Foundation Centre, and the Government of Switzerland—as well as three Roma representatives. Nearly $42 million was pledged by the donor community as start-up capital. The Fund aims to disburse approximately $10 million in annual grants.
The objective of the Roma Education Fund is to support and ensure the sustainability of initiatives aimed at improving the educational status of Roma and reducing the gap in access to quality education between Roma and non-Roma populations. The Fund has three primary functions:

(i) To make grants to public and private education sectors to help improve educational outcomes for Roma—the Fund does not substitute for what governments themselves finance, but has a critical catalytic and partnership-brokering role;

(ii) To serve as a cross-country information clearinghouse on Roma education;

(iii) To advocate improved educational outcomes for Roma—for example, through a regular report on the status of Roma education.

The Fund approved its first round of grants at the end of 2005. Projects included support for teacher training, parental involvement in schools, scholarships for Roma studies, and dissemination of lessons from desegregation initiatives.

More information can be found at: www.romaeducationfund.org

changes necessary to extend these projects to other areas of the country and to integrate lessons into policy-making.

Initiatives in education take various forms and intervene at different points within the education cycle. A key priority is lowering the barriers that prevent Roma children from starting school in the first place. Many children are discouraged from attending school because of deprivation at home and cultural differences, including language. Economic constraints can be loosened by coordinating social assistance and education policies to ease the cost of education for poor families—including school feeding programs (which boost both nutrition and attendance), linkages between child allowances and school enrollments, and scholarships for low-income students. Social workers can also identify households in need of assistance.

NGOs can also play important roles. The Open Society Foundation initiated the "Step-by-Step" program, modeled on the US "Head Start" initiative, in both Roma and non-Roma communities. The program takes an integrated approach that provides training and support to teachers while involving parents in the classroom. In 2000, over 8,000 Roma students in 17 countries in Central and Eastern Europe and the former Soviet Union enrolled in Step-by-Step programs.

Initiatives that reduce the dropout rate and smooth the way to secondary and tertiary education can be critical. Mentoring programs and extracurricular activities that provide tutoring and supplementary educational events have been introduced in some countries. Experimental secondary schools in Hungary and the Czech Republic integrate Romani studies, including language, history, and culture into the curriculum.

Better education for Roma students can boost school attendance and educational outcomes. This requires fighting discrimination within school systems and diminishing the role of special schools intended for mentally and physically handicapped students and institutions for Roma. The practice of unnecessarily channeling Roma students into special schools in the first place has been under review in a number of countries, including Hungary and Serbia.

Integration of Roma students from segregated schools and classrooms and from schools for the mentally disabled to general schools is a priority across countries. Measures include: desegregation of schools, including kindergartens; enforcing legal regulations for desegregation; eliminating segregated classes and schools; and antidiscrimination measures and media campaigns to support desegregation. Limiting the use of separate classrooms and schools for Roma can improve education quality and reduce divisions between Roma and non-Roma communities. Other important interventions include teacher training and curriculum development to support multicultural education.

These efforts are just a start. The Roma Education Fund can only provide a small contribution to the significant resources that it will take to get the approximately 1.3 million Roma children of primary school age in the Decade countries into school. Sound policies, effective implementation, aggressive monitoring, unwavering political commitment, and continuous Roma involvement are just some of the ingredients needed for the success of the Decade and to expand opportunities for future generations of Roma.

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Ensuring Access to Low-Cost Drugs

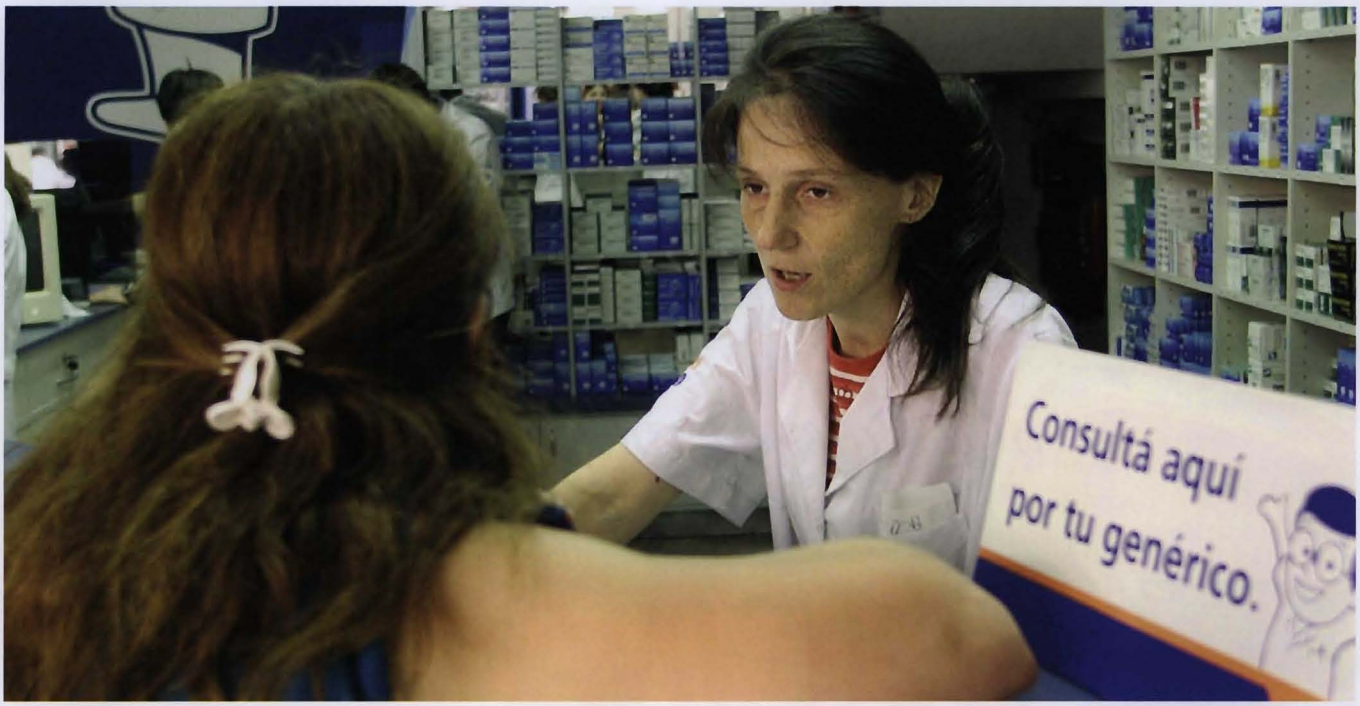
in a Patent-Protected World

BY JEAN O. LANJOUW

IN 1995, the founders of the WTO agreed to a set of minimum intellectual property standards (the so-called TRIPS rules). An important aim of TRIPS proponents was to ensure worldwide patent protection on new drug products. Today, after a decade of "transition," we are entering the stage where, indeed, generic versions of patented drugs will no longer be readily available on the market anywhere in the world. India's passage of a new TRIPS-compliant patent law in April 2005 was a significant turning point in this process.

Going forward, poor countries need to retain some credible source for the generic supply of patented drugs, partly to have some leverage in price negotiations with producers of patented drugs. Even if generic alternatives are not used, having the option of turning to generics can be just as important because alternatives give a country some bargaining leverage in price negotiations with the patent holder. Competition, or the threat of competition, provides a market-based discipline on prices, making more direct control unnecessary.

Under TRIPS, countries retain the right to license generic sales without the consent of the patent holder. If all countries had large markets, then compulsory licensing of local production would suffice to ensure availability of a generic supply. However, most poorer countries have markets sufficiently small that sales revenue from any one country alone can-

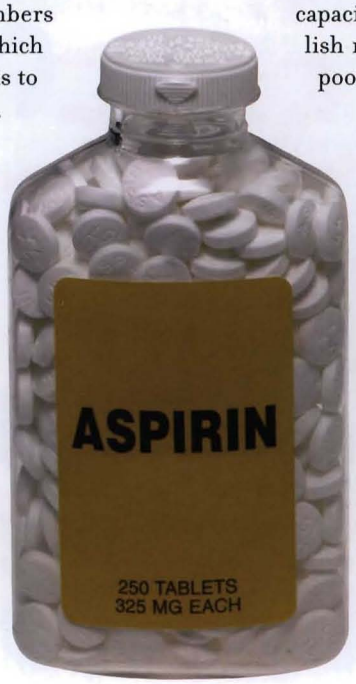


not cover the fixed costs of starting up production. Certainly one would not expect to see the variety of generic suppliers needed to get the benefits of competition.

Ensuring availability of generic drugs

THERE ARE TWO WAYS TO TACKLE this problem. One is to look outside of the developing world for economies of scale – essentially to allow poorer countries to take advantage of generic production infrastructure that already exists in the developed world. On August 30th, 2003, after nine months of diplomatic deadlock, WTO members agreed on procedures and circumstances in which TRIPS restrictions would be waived to allow this to happen. The advantage of this approach is that, in principle, generic supplies could be available quickly.

But the disadvantage is clear. Drugs produced by generics firms based in the developed world and exported to low-income markets will look like acceptable substitutes for the patented versions in the developed countries, raising concerns by producers of patented drugs. Further if producers of generics are able to obtain early production experience by selling in poorer markets, they are poised to enter high-income markets more rapidly when patents expire. These two facts make production by developed-country generics firms particularly threatening to the research-based industry.



The second approach is to create economies of scale within the group of developing countries themselves. This is the idea behind the Foreign Filing License (FFL) proposal described below. Under this proposal, poorer country markets would be combined into a "generic region." Production could be based in any one country, and drugs exported to all other countries in that group, without any of the political and procedural complexity associated with compulsory licensing.

This means that if *any* country in the generic region had the ability to produce a given drug, then *all* other countries in the region could take advantage of its production capacity. It would also become more feasible to establish new generic production capacity in the smaller poor countries because the facilities could be used to serve a set of countries rather than just the single domestic market. The development of generic supply from within the developing world to address the needs of the developing world would pose far fewer concerns for the research-based industry. It would also help develop the technical skills and production capacity of low-income countries.

The primary concern raised by the widespread use of generic pharmaceuticals is that it could undermine firms' incentives to develop new products. However, two basic facts about drug markets show that it is possible to improve generic access for the poor while preserving research incentives.

First, diseases commonly associated

with developed countries, such as cancer or diabetes, are increasingly important causes of death and disability in poor countries. In the high-mortality regions of the world, for example, cardiovascular disease is already estimated to cause a greater share of the total disease burden than malaria and other tropical diseases combined (World Health Organization 2004). This fact means that improved access to pharmaceuticals treating "global" diseases can have large health benefits for the poor.

Second, while many people in poor countries suffer from "global" diseases, they are a very insignificant part of the commercial market. Estimates suggest that currently almost fifty percent of the world's people live in countries that together represent less than 2 percent of global spending on drugs for cardiovascular disease (based on data from IMS HEALTH Global Services at http://www.ims-global.com). Given the smaller profit margins in poor countries, this half of the world's population would account for an even smaller share of global profits. Firms' incentives would not be undermined by removing such a small share of profits.

It is because of these striking asymmetries in world markets that many of the poor could be allowed generic access to important classes of drugs without damaging research incentives. The foreign filing license approach described below is a feasible way to achieve this outcome.

The Foreign Filing License approach

IN ESSENCE, the FFL policy would have inventors in developed countries make legally binding commitments to their own governments not to enforce patent rights in certain pharmaceutical markets. These markets would be defined as those constituting the bottom percentage, say 2 percent, of global drug sales in each disease class.

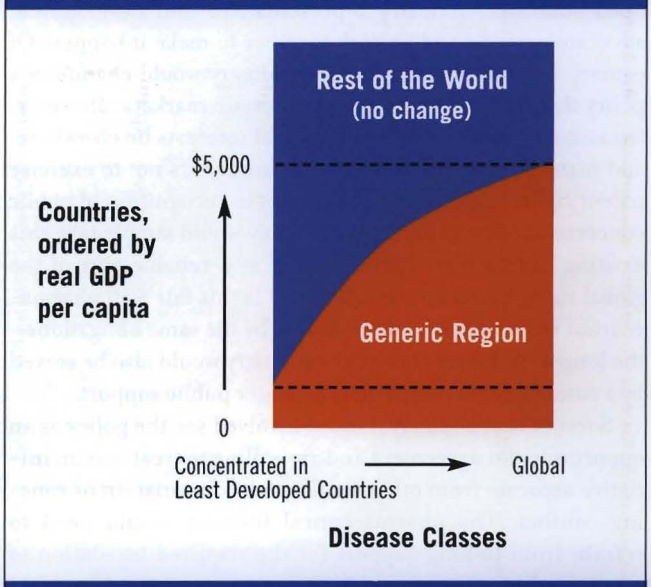
The resulting "generic region" is shown in the figure at right. Along the horizontal axis of the figure are disease classes, listed with those concentrated in poor countries toward the left, and those with worldwide incidence toward the right. Along the vertical axis are countries ordered by real GDP per capita. The red area shows the "generic region" that would be created by the policy. The generic region would be recalculated each year to accommodate changes in income and the evolution of markets.

Because diseases to the left are more concentrated in the developing countries, the 2 percent of global markets cutoff is reached at lower levels of real GDP per capita. It may seem counter-intuitive to differentiate in this way, but it is precisely for these diseases that some incentive for new product development may need to come from sales in the developing world. These sales are likely to be financed, at least in part, by the international community. For global diseases, the cutoff is reached at higher levels of real GDP per capita, so incentives would come primarily from sales in developed countries. Countries above a certain level of GDP (in the figure this is assumed to be $5,000 per capita) would not be in the generic region for any drugs.

The poorest countries falling below some set real GDP per capita threshold would be in the generic region for all pharmaceuticals. Countries higher up, such as India, would have a mixed situation. They would be in the TRIPS environment for diseases to the left that are concentrated in the developing world, and in the generic region for more global diseases. For markets in the blue area above the curved line the policy has no effect: both the responsibilities and the flexibilities of TRIPS remain unchanged.

The size of the generic region depends on the ceiling income level and, more importantly, the percentage of global sales cutoff (here 2 percent).

FIGURE 1: THE PROPOSED GENERIC REGION



Source: Lanjouw 2004.

Implementation

IMPLEMENTATION WOULD NEED to be coordinated among the developed countries that have pharmaceutical research activity, including, at least, Canada, Europe, Japan, and the United States. The policy would require legislation to amend the patent code in each country. In the United States and the United Kingdom, this would include adding an inventor declaration to an existing foreign filing license process; other countries would need to put a foreign filing license provision into their codes (see Lanjouw 2002 for international legal details). The classification of countries and disease classes could be carried out by an international organization and reviewed annually.

Developing countries would not be required to take any action to implement this policy. They would continue to take steps to comply with TRIPS and any bilateral treaty obligations. Most important, beneficiary countries would not need to seek exceptions or argue over treaty interpretation with developed country governments. Rather, they could proceed to strengthen their own patent systems to the potential advantage of local inventors.

Because implementation requires legislation in the developed countries, industry representatives and development advocates would need to work together to make it happen. Of course, it is not obvious that the industry would champion a policy that restricts its control over certain markets. However, firms are aware that their commercial interests lie elsewhere; and many have made voluntary commitments not to exercise patent rights in the poorest countries in recognition of public concerns about access. The FFL policy would simply take this existing commitment and embed it as a reliable part of the global rules-based system. Not only is this fair —all pharmaceutical researchers would be bound by the same obligations—the longer-term interests of the industry would also be served by a patent system that garnered greater public support.

Success is most likely if those involved see the policy as an opportunity for agreement and are willing to treat it as an initiative separate from other issues under negotiation or causing conflict. The pharmaceutical industry would need to refrain from linking support for the required legislation to other conditions, particularly involving countries that would *not* be beneficiaries of the policy. The development community would need to be enthusiastic about the legislation and recognize the industry contribution without, in a similar way, linking support to other areas of discontent. Having discussions outside of the WTO would help to make clear the separation between this initiative and both past controversies and current negotiations.

It is tempting to simply make do with what we have—a global patent system pushing towards uniformity. It is tempting to let the global rules of access be defined by whatever happens to come from the lobbying that will surround future patent controversies. But it is important to do better. Generic production for the poorest countries is not an attractive commercial opportunity for any firm and so it will be difficult to maintain competitive generic supply for such markets. It makes sense to take advantage of all options: including developing rules under which developed country firms can provide a source of generic supply in some cases, and removing patent constraints on the development of generic production capacity within the poorest countries so that they can supply their own markets (the FFL proposal). A system that reflects the real differences in global markets can encourage broader generic access without undermining pharmaceutical research.

The late Jean O. Lanjouw was Associate Professor in the Department of Agricultural and Resource Economics at the University of California, Berkeley.

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Inequality Traps

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nomic changes. Thus in arguing for the benefits that may accrue from more open markets, the seismic cultural shifts that would ensue should not be ignored, particularly when they may result in new forms of domination and control. This is not to say that cultural dimensions of integration are always either inequalizing or homogenizing—cross-cultural interactions could also be enriching and productivity enhancing.

Institutional cultures

Last, but not least, we need to consider the cultures of the institutions themselves. Tales of arrogance in the interactions between international or bilateral agencies and their "clients" abound. Some would suggest the ease by which borrower countries adopt the ideological fashions of international development agencies is an example of internalized discrimination. Small, less affluent countries eager for a loan are particularly vulnerable to this. However, there is an increasing self-awareness within the organizations of this issue. Recent policies in the World Bank and elsewhere have been seeking to change the asymmetry of dealings with client countries and enable a shift towards a culture of partnership and mutual learning with countries. But while institutional cultures are dynamic, they also take time to change, and this change is helped by being conscious and aware of inequities of agency within the world of development policy.

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This essay is a summary of the arguments in Rao and Walton (2004a and 2004b) which provide more thorough expositions.

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national level, wage compression occurs at the national level.

Is the Scandinavian model politically feasible in the third world? This, it seems to us, is the critical question. The elements that appear to have been important in allowing wage differentials to be reduced through collective bargaining were (a) well organized employers, (b) encompassing trade unions that included the low-paid workers and (c) immediate benefits of wage compression in terms of the earnings of those at the bottom. These conditions are not notably present in Africa, Asia and Latin America today. But we still understand very little of the political dynamics that made wage compression possible in an environment with strong unions and a government that considered industrial workers to be its core constituents. Thus, we are reluctant to conclude that the social democratic experience cannot be repeated.

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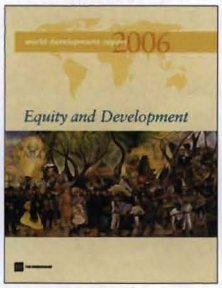
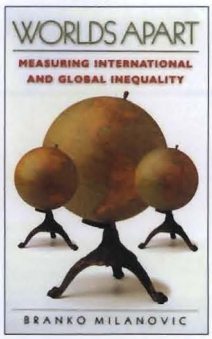
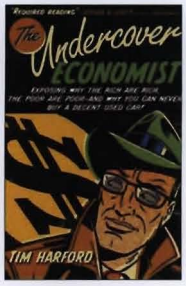


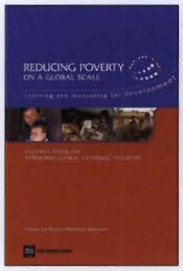
WORLD DEVELOPMENT REPORT 2006: EQUITY AND DEVELOPMENT, *World Bank, 2005.* Two children born on the same day—one, a white male in Sweden, the other, a black female in South Africa. One can expect to live to the age of 80, 30 years more than the other. One is likely to complete 11.4 years of schooling, the other less than a year. These differences in life chances that appear across nationality, race gender, and social groups lead to wasted human potential and thus missed development opportunities. *The World Development Report 2006* thoroughly examines this inequality of opportunity—across and within countries—and its impact on development. **See also the online version at: www.worldbank.org/wdr2006**



WORLDS APART: MEASURING INTERNATIONAL AND GLOBAL INEQUALITY, *Branco Milanovic, Princeton University Press, 2005.* At the turn of the twenty-first century, the richest 5 percent of people receive one-third of total global income, as much as the poorest 80 percent. While a few poor countries are catching up with the rich world, the differences between the richest and poorest individuals around the globe are huge and likely growing. Branko Milanovic analyzes income distribution worldwide using, for the first time, household survey data from more than 100 countries. He explains the main approaches to the problem and offers a more accurate way of measuring inequality among individuals.

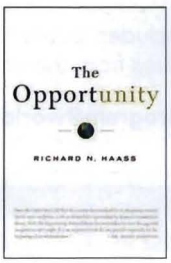


THE UNDERCOVER ECONOMIST: EXPOSING WHY THE RICH ARE RICH, THE POOR ARE POOR—AND WHY YOU CAN NEVER BUY A DECENT USED CAR!, *Tim Harford, Oxford University Press, 2005.* An economist's version of The Way Things Work, this engaging volume is part field guide to economics and part expose of the economic principles lurking behind daily events. Tim Harford ranges from Africa, Asia, Europe, and of course the United States to reveal how supermarkets, airlines, and coffee chains—to name just a few—are vacuuming money from our wallets. Covering an array of economic concepts including scarce resources, market power, efficiency, price gouging, market failure, inside information, and game theory, Harford sheds light on how these forces shape our day-to-day lives, often without our knowing it.



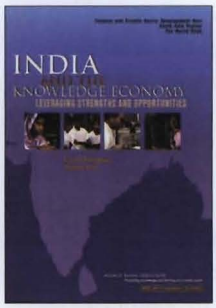
REDUCING POVERTY ON A GLOBAL SCALE: LEARNING AND INNOVATING FOR DEVELOPMENT: FINDINGS FROM THE SHANGHAI GLOBAL LEARNING INITIATIVE, *Edited by Blanca Moreno-Dodson, The World Bank, 2005.* Capturing the findings from the Shanghai Global Learning Initiative, Reducing Poverty on a Global Scale contributes to the broader existing knowledge on poverty reduction and the effectiveness of aid. The objective is to enlighten development practitioners about observed achievements towards reducing poverty and the factors behind them. Each of the chapters extracts implementation lessons learnt from a subset of case studies. A companion CD-ROM contains all of the case study summaries presented at the May 2004 Shanghai conference.

THE MICROECONOMICS OF INCOME DISTRIBUTION DYNAMICS: IN EAST ASIA AND LATIN AMERICA, *Francisco H. G. Ferreira, Francois Bourguignon, and Nora Lusting, The World Bank, 2004.* This volume presents a collection of studies on the dynamics of income inequality based on micro data. Using a simple but powerful empirical methodology, the authors analyze the roles of prices, occupational choice, and educational choice in accounting for household income and its contribution to inequality. It casts doubt on the grand theories of growth and income inequality that have dominated discussions in development economics. It paves the way for a full-blown, micro-based general equilibrium theory of income determination and income inequality.



THE OPPORTUNITY: AMERICA'S MOMENT TO ALTER HISTORY'S COURSE, *Richard N. Haass, Public Affairs, 2005.* The author argues that there is no major power conflict in the world. America's great military, economic, and political power discourages traditional challenges;

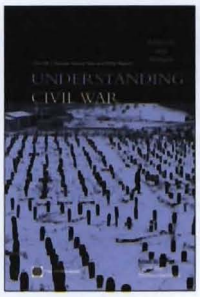
no ideological fault line divides the world into warring blocs. India, China, Japan, Russia, and Europe all seek a prolonged period of stability that would support economic growth. The question is whether the United States will be able to integrate other countries into global efforts against terrorism, the spread of nuclear weapons, genocide, and protectionist policies that jeopardize global economic prosperity. This compelling book explains why it must and how it can.



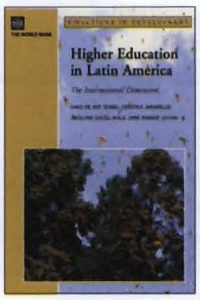
INDIA AND THE KNOWLEDGE ECONOMY: LEVERAGING STRENGTHS AND OPPORTUNITIES, *Carl Dahlman and Anuja Utz, The World Bank, 2005.* This book assesses India's progress in becoming a knowledge economy and suggests actions to strengthen the economic and institutional regime, develop educated and skilled workers, create an efficient innovation system, and build a dynamic information infrastructure. It highlights that to get the greatest benefits from the knowledge revolution, India will need to press on with the economic reform agenda that it put into motion a decade ago. In so doing, it will be able to improve its international competitiveness and join the ranks of countries that are making a successful transition to the knowledge economy.

WORLD DEVELOPMENT INDICATORS 2005 SUITE, *The World Bank, 2005.* This statistical reference allows the reader to consult over 800 indicators for 152 economies and 14 country groups in more than 80 tables. *The World Development Indicators 2005* suite of publications includes the WDI in print, CD-ROM and online format, as well as the *Little Data Book*, the *Little Green Data Book* and the *World Bank Atlas*.

OUR TIME IS NOW: YOUNG PEOPLE CHANGING THE WORLD, *Sheila Kinkade and Christina Macy, Pearson Foundation, 2005.* This book tells the stories of more than thirty young people in over twenty countries who are taking action to contribute to their local and global communities. The book spotlights the efforts of young leaders who are addressing a host of urgent global challenges: poverty, violence, racism, environmental destruction, and civic apathy, to name only a few.



UNDERSTANDING CIVIL WAR (Volume 1: Africa, Volume 2: Europe, Central Asia, and Other Regions), *Paul Collier and Nicholas Sambanis, eds. The World Bank, 2005.* The two volumes of *Understanding Civil War* build upon the World Bank's prior research on conflict and violence, particularly on the work of Paul Collier and Anke Hoeffler, whose model of civil war onset has sparked much discussion on the relationship between conflict and development in what came to be known as the "greed" versus "grievance" debate. The authors systematically apply the Collier-Hoeffler model to 15 countries in 6 different regions of the world.



HIGHER EDUCATION IN LATIN AMERICA: THE INTERNATIONAL DIMENSION, *Hans de Wit, Isabel Cristina Jaramillo, Jane Knight, and Jocelyne Gacel-Ávila, eds. The World Bank, 2005.* This book provides a comparative analysis of internationalization issues, trends and opportunities in higher education in selected Latin American countries at the institutional, national and regional level. It addresses the specific elements of the internationalization process, such as mobility, curriculum, linkages, networks, etc. but instead of looking at them in detail they are presented as part of a more comprehensive overview of policies, programs and activities at all three levels.

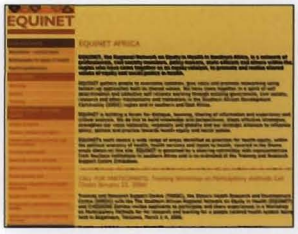
ACCESS FOR ALL: BUILDING INCLUSIVE FINANCIAL SYSTEMS, *Brigit Helms, The World Bank, 2006.* In the past ten years, the world of microfinance has changed dramatically. The field has moved rapidly from early innovations in providing loans to help poor entrepreneurs start businesses to a bold vision of creating entire financial systems that work for the poor. Microfinance has proven to be an effective tool for reducing poverty and helping poor people to improve their lives. And yet a diverse range of potential clients still lack access to an array of financial services. The challenge today is to engage more types of distribution systems, more technologies and more talent to create financial systems that work for the poor and boost their contribution to economic growth. This title explains what this new vision of microfinance means in practical, non-technical terms.

WORLD DEVELOPMENT REPORT 2006: EQUITY AND DEVELOPMENT, online version. The website includes press releases in multiple languages, overview and full text, a feature story, a video interview, the press conference transcript, press conference photos, and more.
www.worldbank.org/wdr2006

INTERNATIONAL SOCIETY FOR EQUITY IN HEALTH (ISEQH) promotes equity in health and health services internationally through education, research, publication, communication and charitable support. It facilitates scientific interchange of, and disseminates conceptual and methodological knowledge on issues related to equity in health and health care services; advances research related to equity in health; and maintains corresponding relationships with other relevant international and regional organizations.
www.iseqh.org/index.html

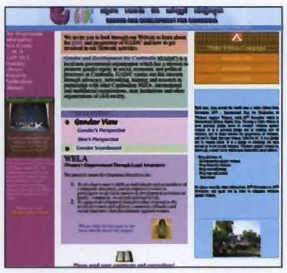
INTERNATIONAL JOURNAL FOR EQUITY IN HEALTH is an open access, peer-reviewed, online journal presenting evidence relevant to the search for, and attainment of, equity in health across and within countries. *International Journal for Equity in Health* aims to improve the understanding of issues that influence the health of populations. This includes the discussion of political, policy-related, economic, social and health services-related influences, particularly with regard to systematic differences in distributions of one or more aspects of health in population groups defined demographically, geographically, or socially. Published online by BioMed Central.
http://www.equityhealthj.com/

GENDER AND HEALTH EQUITY NETWORK (GHEN) is a partnership of national and international institutions concerned with developing and implementing policies to improve gender and health equity, particularly in resource constrained environments. On this site you can see who the partners are, read summaries of the country case studies, and find out more about resources on gender and health equity. GHEN produces newsletters once or twice a year.
www.ids.ac.uk/ghen/index.html



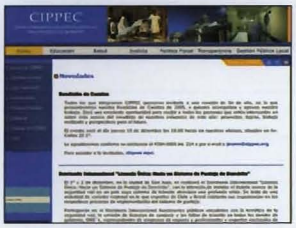
EQUINET, the Regional Network on Equity in Health in Southern Africa, is a network of professionals, civil society members, policy makers, state officials and others, who have come together to promote and realize shared values of equity and social justice in health. EQUINET gathers people to overcome isolation, give voice and promote networking. We work through existing government, civil society, research and other mechanisms and institutions in the Southern African Development Community (SADC) region and in southern and East Africa.
www.equinetafrica.org

CENTER FOR SUSTAINABLE DEVELOPMENT AND ENVIRONMENT (CENESTA), based in Iran, is a non-governmental, non-profit organization dedicated to promoting sustainable community- and culture-based development. Its main area of work is Iran and Southwest Asia. CENESTA experts have also engaged in extensive activities in Africa, Latin America, Asia, and in the international arena in general. CENESTA is a member of IUCN—the World Conservation Union and is affiliated with the University of the North (Iran).
www.cenesta.org

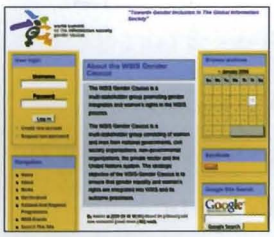


GENDER AND DEVELOPMENT FOR CAMBODIA (GAD/C) is a local non-governmental organization which has a mission to promote gender equity in social, economic and political processes in Cambodia. GAD/C carries out this mission through advocacy, networking, training and research in partnership with other Cambodian NGOs, international and multilateral organizations, state institutions and other organizations of civil society.
www.bigpond.com.kh/users/gad

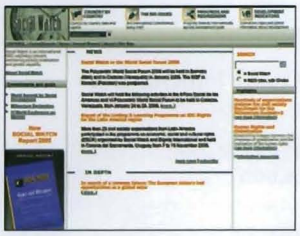
TRANSFORMATION, INTEGRATION, AND GLOBALIZATION ECONOMIC RESEARCH (TIGER) has been established in Poland to bring together people and ideas through innovative research projects that would have the potential to advance economic equity while building democratic and market institutions in post-socialist countries and other emerging market economies. TIGER aims to strengthen human capital by imparting the results of its research to current and future leaders in government and business.
www.tiger.edu.pl/english/index.htm



CENTER FOR THE IMPLEMENTATION OF PUBLIC POLICIES PROMOTING EQUITY AND GROWTH (CIPPEC), based in Argentina, promotes the analysis and implementation of public policies fostering equity and growth in Latin America. It promotes the development of public entrepreneurs and the implementation of best practices in the public sector; develops and disseminates tools that enable civic society to increase its capacity to control and evaluate State policies; and carries out research projects.
www.cippec.org



WORLD SUMMIT ON THE INFORMATION SOCIETY (WSIS) GENDER CAUCUS is a multi-stakeholder group consisting of women and men from national governments, civil society organizations, non-governmental organizations, the private sector and the United Nations system. The strategic objective of the WSIS-Gender Caucus is to ensure that gender equality and women's rights are integrated into WSIS and its outcome processes. It aims to build on commitments made in the Beijing Platform for Action 1995.
http://genderwsis.org/



SOCIAL WATCH is an international network of citizens' organizations addressing poverty and the causes of poverty, aiming towards an equitable distribution of wealth and the realization of human rights. Social Watch holds governments, the UN system and international organizations accountable for the fulfillment of national, regional and international commitments to eradicate poverty. Social Watch aims to achieve its objectives through a strategy of advocacy, awareness–building, monitoring, organizational development and networking. Social Watch promotes people-centered sustainable development.
www.socialwatch.org

ENERGY, POVERTY, AND GENDER (ENPOGEN) was set up to investigate the role of energy, especially renewable energy, in alleviating poverty and improving gender equity. The project was initiated by the Asia Alternative Energy Program (ASTAE), with the support of the Government of the Netherlands.
www.worldbank.org/astae/enpogen

CALENDAR

MARCH 2006

6–8 Energy Week 2006
Washington, DC
www.worldbank.org (NEWS/Calendar)

6–9 World Conference on Art Education (UNESCO)
Lisbon, Portugal
i.le-fournis@unesco.org (Isabelle Le Fournis)

16 World Water Forum (UNESCO)
Mexico City, Mexico
r.amelan@unesco.org (Roni Amelan)

16–17 Conference on World Heritage and Climate Change (UNESCO)
Paris, France
i.le-fournis@unesco.org (Isabelle Le Fournis)

APRIL 2006

5–6 World Economic Forum on Latin America
São Paulo, Brazil
latinamerica@weforum.org
www.weforum.org/latinamerica

24–28 International Trade Centre Joint Advisory Group Conference
Geneva, Switzerland
bisson@intracen.org (Elaine Bisson)
www.intracen.org/index.htm

MAY 2006

1–5 Conference of the Parties to the Stockholm Convention on Persistent Organic Pollutants (UNEP)
Geneva, Switzerland
mwilliams@unep.ch (Michael Williams)
www.pops.int

20–22 World Economic Forum on the Middle East
Sharm El Sheikh, Egypt
middleeast@weforum.org
www.weforum.org/site/homepublic.nsf/Content/World+Economic+Forum+on+the+Middle+East

JUNE 2006

19–23 World Urban Forum III
Vancouver, Canada
habitat.press@unhabitat.org (Zahra Hassan)
www.unchs.org/wuf/2006/default.asp
www.unhabitat.org

SEPTEMBER 2006

19-20 IMF/World Bank Annual Meetings
Singapore
www.imf.org/external/am/2006/about.htm

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